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NEWS SUMMARY

GENERAL

Begin chooses July 7 election

The Israeli Cabinet yesterday proposed July 7 as election day instead of November as scheduled.

Mr. Menachem Begin's Government lost its parliamentary majority when Finance Minister Yigal Hurvitz resigned and took his Rafi Party out of the coalition.

Opposition parties said they would not accept such a long run-up to the election. The election Bill is likely to be tabled in the Knesset tomorrow and there could be considerable haggling before a final date is agreed. Back Page

Party fire: 9 die

Police are investigating reports that a petrol bomb caused the fire at a Lewisham, London, house that killed nine people at an all-night party.

Times talks

Crucial negotiations that are likely to decide whether Times Newspapers is sold as a going concern to a single bidder are about to begin. Back Page

Pilots strike

Italian pilots started a week's strike over pay. Alitalia's international flights will be cancelled and internal services cut drastically.

Rome demo ban

Rome's police chief banned demonstrations during this week's visit by France's President Giscard d'Estaing.

Arms allegations

Zambia's High Commissioner in London sought talks with the Foreign Office about allegations in The Observer that a member of her staff was implicated in illegal arms dealing.

Off danger list

Former MP Bernadette Devlin and her husband Michael McAliskey who were shot by gunmen on Friday remained seriously ill but were off the danger list.

Attacks warning

The Irish National Liberation Army, which claimed responsibility for murdering Tory MP Airey Neave, said they were stepping up attacks on border security forces.

Solidarity meeting

Solidarity said a meeting with the Polish Government about work-free Saturdays was tentatively arranged for Wednesday. Seeking supplies from Western unions. Page 6

Oil action call

International action against oil discharge at sea was urged by the Royal Society for the Protection of Birds. More than 40,000 birds have died from oil pollution this year.

Yoko's $25,000

John Lennon's widow Yoko Ono gave $25,000 (£10,447) to New York's police widows and orphans fund to thank the police for their condolences.

Moscow talks

A Maltese Government delegation is in Moscow for talks that are likely to include leasing oil storage tanks to the Soviet Union.

Bearing up

An Australian who tried to catch a koala bear by chopping down the tree it was in was fined £345 for causing it "distress."

BUSINESS

Belgian steel merger planned

● BELGIUM'S largest two steel-making groups, Cockerill and Charleroi "Triangle," itself three companies, are to merge, subject to approval by the Government, a major shareholder in both. Page 2

● MINERS' leaders, who fear the NCB is about to announce a rundown of uneconomic pits, will meet steel and rail union leaders on Friday to discuss strategy for protecting the interests of all. Back Page

● NATIONAL ENTERPRISE BOARD subsidiary planned for next month would provide loans of up to £50,000 for small businesses. Back Page

● BRITAIN had a visible trade surplus, £51m, with other EEC countries last year for the first time in 10 years. Back Page

● GRANADA TV RENTALS has ordered 1,300 Mini Metros, worth £6m, from BL. Page 4

● FORD, HALEWOOD, management is hopeful that 10,000 hourly-paid workers will agree to the 9½ per cent pay offer today. Page 6

● CONSUMER CONFIDENCE is not as low as it was, though 44 per cent of those surveyed expect things to get worse. Page 5

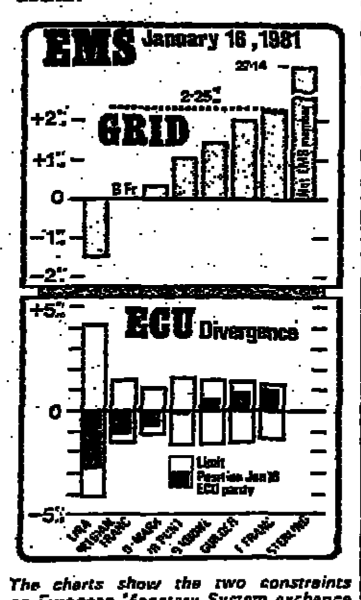
● BISGOOD BISHOP is the third jobber to make a market in U.S. equities on the London market floor. Page 4

● WILLIAMS LEA GROUP, specialist printers, pre-tax profits for the year ended September fell from £912,000 to £450,000 last year. Page 14

● THE FRENCH FRANC was again the most improved currency in the European Monetary System last week, although it was slightly down from the previous week, reflecting the strength of the dollar. The Dutch guilder followed it closely, with the Danish krone and Irish punt remaining steady in the middle of the system.

Friday's cut in Belgian short-term Treasury bill rates, the second this year, was mostly a reflection of increased domestic liquidity, and had little effect on the Belgian franc, which has recently improved from its "floor" level in terms of the French franc.

As the weakest currency in the EMS, the Italian lira showed little movement against its partners, but as with all other European currencies, fell sharply against sterling and the dollar.



The charts show the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

CONTENTS

Hostages release 'subject only to wholly trivial points'

By Jurek Martin in Washington, Terry Povey in Tehran and Robert Graham in Algiers

FINAL AGREEMENT between the U.S. and Iranian Governments on the release of the 52 American hostages appeared imminent last night.

Mr. Behzad Nabavi, Iran's chief negotiator, said only wholly trivial points remained to be settled as a result of the latest exchange of messages through Algiers. Senior U.S. officials confirmed that an accord was near.

As intensive negotiations continued throughout the weekend in Algiers, preparations were made to receive the hostages. They have been held for more than 14½ months by Iranian militants who originally sought the return of the exiled Shah and his wealth.

No details of the final package agreement hammered out in Algiers over the past week have been released. But, according to Mr. Watson, differences occupying the final conversations of the negotiating teams concerned arrangements for the arbitration of U.S. claims against Iranian Government institutions and the amount of money to be placed in the escrow account by the U.S.

Officials in Washington said the initial announcement of a settlement would first be made in Algiers. Dr. Zbigniew Brzezinsky, National Security Adviser, said that Mr. Warren Christopher, Deputy Secretary of State, who was masterminding the negotiations there, had considerable authority to conclude an agreement.

President Carter cut short his final wekend at the presidential retreat at Camp David to fly back to the White House personally to oversee the climactic developments.

Mr. Jack Watson, White House Chief of Staff, said in a television interview that if an agreement was reached "we could execute it virtually instantaneously."

He said that the frozen Iranian funds would be released into escrow accounts "as soon as our hostages have cleared Iranian air space."

FUNDAMENTAL mistrust of U.S. motives by Iran has been a hurdle to progress which has been overcome by Algeria underlining the importance of the Bank of England as effective guarantor in the transfer of Iran's assets from U.S. banks.

MOVEMENT of Iran's gold between the vaults of the *Federal Reserve Bank in* New York and those of the Bank in London is mostly the work of telex operators. The upshot of the weekend movement was that more of the UK's 700 tonnes of official gold reserves is now underground in Manhattan rather than in Threadneedle Street.

THE SOVIET UNION repeated its attack on the motives of the U.S. in attempting to resolve the *hostage crisis, after the* response to the claims of Pravda made by Mr. Edmund Muskie, U.S. Secretary of State. Page 2.

In Tehran, a diplomat close to the exchanges cast doubt on whether the remaining issues were indeed trivial, involving as they did billions of dollars. The officials Pars new agency quoted Mr. Nabavi as complaining that Washington's "continuous vascillations" were "capricious and time wasting."

Four problems have been mentioned by both diplomats and bankers in Tehran as still causing a hold up to a final resolution.

These are said to be: reaching a final agreement on the total amount of Iranian assets in the U.S.; the meaning of an amendment passed in the Parliament last week to the Bill empowering the Government to settle outstanding claims by arbitration; the payment of interest on loans; and finally, technical and timing problems of the transfer itself.

According to reports circulating in Tehran Iran's negotiators may still be insisting that there are more of their assets in the U.S. than the approximately $9.5bn covered by the current negotiations.

Arguments over this have spasmodically affected talks say diplomats.

Potentially more serious in *the long run was the amendment* put forward by Dr. Hassan Ayat and passed after brief debate during last week's emergency parliament discussion on the arbitration bill. The amendment would appear to exclude from the arbitration process all contracts in which the settling of disputes in the Iranian courts was specified.

In a reversal of his earlier refusal to "sign a blank cheque" over the hostage terms President-elect Ronald Reagan, who takes over the reins of government tomorrow midday said on his way to church yesterday morning that he was willing to "sign anything" that would lead to the release of the hostages.

There was speculations yesterday that Mr. Carter might fly to Wiesbaden in West Germany to greet the hostages at the American military hospital there, enroute from Algiers.

A Boeing 707 airliner of Algerian Airways was yesterday reported to be on its way to Tehran to pick up the hostages. But there was no confirmation of a report that the aircraft had landed at the Iranian capital.

A team of six Algerian doctors arrived in Tehran on Saturday to examine the hostages, still being held at an unknown location, and verify their good health. But by late yesterday evening the doctors had still not carried out their task.

Yesterday's sudden acceleration in the tempo of moves surrounding the hostages and Iran's frozen assets followed a day of relative pessimism on Saturday. A meeting of foreign diplomats with Mr. Mohammed Ali Rajai, Iranian Prime Minister, was called off at the last moment without explanation.

Banks drop law suits against Iran

BY DAVID BUCHAN IN WASHINGTON

THE MAJOR U.S. banks have agreed to drop their various law suits against Iran, paving the way to the release of the Iranian money they hold.

But a variety of safeguards for U.S. creditors and claimants against Iran — including banks, companies and individuals in the U.S. — are reported to have been established.

The U.S. is therefore ready to pay "in the range of $7-8bn" of Iranian assets into a special third party account, a top White House official said yesterday, as resolution of the hostage crisis seemed imminent.

But Mr. Jack Watson, the White House Chief of Staff, said there would be no payment from this "escrow" account—which will be in the Algerian Government's name at the Bank of England in London—to Iran itself "until the hostages have cleared Iranian air space."

Mr. Watson said in a television interview the Iranian assets would be released "in a series of steps." He stressed that in the proposed settlement "all U.S. interests will be protected by escrow and arbitration arrangements."

U.S. Treasury officials said yesterday, that Iran would get only just over half its $8bn from the proposed Bank of England account once it has freed the hostages. The remaining $3.5bn or so would stay in the Alegerian account in London until one way or another it has satisfied U.S. Legal and financial claims.

The U.S. moved on Friday to make about $2.2bn more of gold and cash from the sale of U.S. Government securities through the medium of the Bank of England *for eventual transfer to Iran.*

These assets have been the easiest to unfreeze. Unlike the more than $6bn in blocked deposits in U.S. banks at home and abroad, no legal claims had been filed against the gold and securities which the U.S. Government had held.

A further $4bn are held in U.S. banks in Europe and the $2bn in the U.S. All this will be transferred into the special account in London.

But it is reliably reported that, from the $6bn lump sum, Iran will be required to do the *following:*

● Use perhaps $1bn to repay loans which U.S. banks had made to the Iranian government.

● Leave $1-2bn to cover past U.S. bank loans to quasi-*government agencies and com*panies in Iran. Iran has disputed with the banks the validity of some of these loans.

● Maintain about $1bn to cover any awards made against Iran by the proposed international arbitration commission in favour of U.S. companies or individuals seeking compensation.

Mr. Watson said yesterday that the nature of the arbitration commission was one of the last sticking points in negotiations with Tehran—along with remaining arguments about the size of the total sum to be put into "escrow" in London.

Treasury officials said it

Continued on Back Page

Massey-Ferguson may sell stake in Perkins Engines

BY HAZEL DUFFY AND MICHAEL LAFFERTY

MASSEY-FERGUSON, which last week agreed in principle a rescue package with its bankers, is considering selling stakes in several of its main subsidiaries around the world. The new policy could be applied to Perkins Engines, the Peterborough-based diesel engine manufacturer.

Mr. Victor Rice, Massey-Ferguson chairman, said yesterday multinationals must identify more closely with the countries *in which they manufacture.*

Perkins Engines will become a separate corporate entity. Mr. Rice said: "This opens up the possibility of financing Perkins separately, with an outside investor taking a stake. This could be either a British or foreign company."

This is one of a number of changes which are now likely to emerge following the long-awaited financial restructuring of Massey-Ferguson.

Components

Massey-Ferguson also intends to buy a much higher proportion of its supplies from outside the UK. The group buys 10 per cent of the components used in its Coventry, Peterborough *and Manchester factories from* overseas. This will rise to 25 per cent, the major source of components being switched to the Far East.

Mr. Rice says the switch is being made to make the UK operations more efficient. "The high value of the pound makes importing into the UK very attractive, but these sourcing changes are unlikely to be switched back, even if sterling becomes more competitive over the next couple of years."

Massey-Ferguson has slimmed its UK operations substantially in recent years. Mr. Rice sees little prospects of further efficiencies to be gained from more jobs being cut.

Speaking about the engineering *industry as a whole, he said* that "the situation is much worse than has been portrayed in the Press so far. Even if Massey put robots into all our UK factories, the value of sterling still means that we could not compete with low-cost countries."

The rescue deal finally hammered out on Friday night involves a substantial commitment by Massey's banks to the company.

Bank and institutional lenders will "forgive" interest totalling C$280m in return for equity shares in the company. But the banks have also guaranteed their existing credit facilities to Massey for the next three years. For the following three years the facilities may be reduced by agreed proportions.

As a result of the rescue deal, Massey-Ferguson's bank and institutional lenders could eventually own 25 per cent of the Canadian-based group.

One of the most unusual features of the rescue is a commitment by Britain's State-owned Export Credits Guarantee Department to guarantee an equity issue of C$84m which is to be sold to the Canadian public. This arises because the ECGD has become a substantial indirect lender to Massey as a result of guaranteeing 100 per cent of certain bank loans for Massey exports.

The deal agreed on Friday night is still dependent on the Canadian Government agreeing to guarantee a private placement of C$200m. Massey expects this to be settled in the next few weeks.

Although all the major *Massey group banks have agreed* to participate in the deal, full agreement has not yet been reached with some Latin American banks, as well as Swiss Volksbank and all of the *Australian bank creditors.* It is understood that in the case of the Australian banks Massey is offering either full participation or liquidation of its subsidiaries there.

Mr. Rice said yesterday that the rescue plan has endorsed the present management of Massey and would result in no changes in the present structure. *However, the Canadian Govern*ment is expected to set up its own advisory committee to monitor Massey's performance.

Mr. Rice confirmed yesterday that group operations had suffered severely in the past month from suppliers' fears that Massey would not survive. Because of the freeze on inter-company cash transfers there had been serious *payments* arrears in Italy, for example, and the situation in the UK was deteriorating.

"We tried in the UK to be scrupulous in maintaining *payments but in the last few* weeks these have been dragging out, leading to some key suppliers asking for cash on delivery."

Several Massey factories have been on extended shutdowns due to the severe recession in the agricultural machinery sector, but these will re-open shortly. Even so, one U.S. factory will not reopen until March 2.

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Owen hints at launching plans for new party

BY RICHARD EVANS, LOBBY EDITOR

THE formation of a new Social Democratic Party in the next few months looks increasingly likely if Labour's special constitutional conference decides next Saturday to introduce an electoral college for choosing its leader.

Dr. David Owen, one of the Labour Party's Right-wing "Gang of Three," yesterday gave the strongest hint so far that plans for launching the party, which could mean the realignment of British politics, are now virtually certain to be implemented.

He declared in an interview on London Weekend Television that he intended to launch an initiative after Saturday's Wembley conference on the setting up of a new party, which it is assumed will include Mr. Roy Jenkins, former European Commission President, as well as a number of Labour MPs.

What remains unclear is the timing of any break by the Gang of Three from the Labour Party, and how many MPs and party workers will follow them. Some right-wingers favour an early withdrawal but others, including Mrs. Shirley Williams, believe May should be the earliest date because Labour Party workers want to fight Conservative candidates in local government elections.

Encouragement for potential recruits to a breakaway party came from a special poll commissioned by ITV's Weekend World programme which showed a new Social Democratic Party in alliance with the Liberals could win the next election.

The poll, conducted by Opinion Research Centre among more than 1,000 electors, indicated a 31 per cent vote for a Liberal-Social Democratic alliance, compared with 27 per cent for Labour and 24 per cent for the Conservatives.

Prospects for forming the new party were discussed at Mr. William Rodgers' North London home last night by the Gang of Three—Mr. Rodgers, Mrs. Williams and Dr. Owen—and Mr. Jenkins. One of their tasks was to draft a statement to be issued after the Wembley conference which will make their intentions clear.

The indications are that

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Treasury considers new gilts

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

MAJOR CHANGES in the present methods of financing the Government's borrowing needs are being examined by the Treasury and the Bank of England in consultation with some City institutions.

There were widespread rumours in the gilt-edged market on Friday that a new debt instrument was about to be launched. But an announcement does not appear to be imminent and could be delayed until the Budget on March 10.

There are two main proposals. The first involves the issue of new central Government debt with a maturity of between six months and two years. The second idea is that an index-linked gilt-edged stock should be offered on a restricted basis only to domestic institutional investors.

In his speech to the Zurich Society of Economists last Wednesday, Mr. Nigel Lawson, the Financial Secretary to the Treasury, several times stressed the need for improvements in funding techniques to ensure better monetary control.

There has been undisguised and considerable friction between the Treasury and the Bank on this question. The debate is not yet over. Talks within the City are on both a formal and informal basis.

The proposal for broadening the market for short-term central Government debt was raised last November in light of the proposed changes in monetary control.

One proposal is that 12-month Treasury bills should be issued. Some bank officials are known to have doubts about the size of the potential demand in view of the existing short-term issues by local authorities. There is a danger that these might be squeezed out by any Treasury stocks.

The separate proposal for an index-linked gilt restricted to UK pension funds, insurance companies and other institutions is more controversial.

The stock is intended to overcome the problem that a generally available index-linked *stock might prove attractive to* OPEC investors and thus draw in funds which push up sterling.

The restricted stock is favoured by many Treasury officials though Mr. Gordon Richardson, the Governor of the Bank, has been opposed to index-linked gilts.

OVERSEAS NEWS

With an end to the U.S. hostage crisis in sight, FT correspondents report on final moves to secure their release

Moscow repeats 'cover-up' attacks

By Our Moscow Correspondent

THE SOVIET UNION yesterday persisted with its accusation, despite strong protests from Washington, that the United States' extensive hostage negotiations with Iran were merely an elaborate attempt to mask preparations for a military attack.

Pravda and Izvestia—two major newspapers—as well as Soviet television and radio have all carried in recent days a variety of vaguely-sourced reports that U.S. troops were ready to launch an assault on Iran from a series of bases in Egypt, Turkey, West Germany and British bases in Cyprus.

Dr. Henry Kissinger's recent trip through the Middle East was supposedly intended to break the news to Israel and America's Arab allies that "a new intimidating operation" was being planned.

In the light of the United States' intense and public efforts to free the hostages, the Soviet story enraged American diplomats, who said the Russians were trying to destroy the complicated agreement necessary to free the hostages.

On Saturday, Mr. Edmund Muskie, the Secretary of State, called in the Soviet Ambassador, Mr. Anatoly Dobrynin, for what was described as an unusually blunt protest against Moscow's "scurrilous propaganda." Mr.

Despite Mr. Muskie's protest on Saturday, Radio Moscow yesterday continued to talk of "the danger posed to peace by the U.S. adventurist policy in respect to Iran," and referred to it again only hours before the announcement by Iran's Pars news agency that full agreement with the U.S. had been reached.

Algeria wins battle for trust of two sides

BY ROBERT GRAHAM

IN THE battle to reach agreement on the release of the 52 American hostages in Iran held since November 4, 1979, one of the major hurdles even in the most intricate technical negotiations has been a fundamental Iranian mistrust of American motives.

This has affected political aspects of the agreement quite as much as details on the transfer of Iranian assets held by American banks which were frozen 10 days after the hostages were taken. According to one well-placed Algerian familiar with the negotiations, the Algerians' hardest task has been to convince their Iranian counterparts that they were a trusted intermediary. It has been the Algerians' skill to convince the Iranians they can make the American Government deliver on its word.

In the case of the transfer of Iranian assets totalling some $9.5bn this has been particularly difficult. The Algerians are understood, however, to have underlined the importance of the Bank of England, which has acted as effective guarantor in the transfer of frozen Iranian assets lodged in American banks.

An important factor in convincing the Iranians of U.S. good faith has been the presence in Algiers since Friday of the deputy governor of the Bank of England, Mr. Christopher MacMahon, and the chief cashier, Mr. David Somerset — the man whose name appears on British banknotes—as part of a team of eight American and British legal and financial experts.

Since Friday the pace of negotiations has been increasingly urgent as the chief U.S. representative here, Mr. Warren Christopher, has sought to tie up an agreement to enable the hostages to be released before President Carter's term of office expires on Monday.

Mr. Christopher talked to the Algerian Foreign Minister, Mr. Mohammed Benyahia, for a total of four hours on Saturday. Yesterday he held three sessions with him up to mid-afternoon, the first in the early hours of the morning.


Mr. Christopher: talking day and night

Parallel with these negotiations the team of eight American and British financial and legal experts have been meeting in groups with their Algerian counterparts. The meetings have either taken place in the old Moorish villa overlooking the Bay of Algiers where the American Embassy compound is housed or at the Algerian Foreign Ministry—Mr. Christopher being ferried in the white Ambassador's car, a converted model of a New York checker cab.

All communications between the Algerians and Tehran have been in French, where they have been translated either into English or Persian. This has been one of the reasons why negotiations have been slow, and sometimes information has leaked more quickly from one of the three negotiating centres.

The U.S. party in Algiers has been rigorously tight in commenting on the negotiations and even yesterday evening, when reports came from Tehran of a breakthrough, officials were still declining to give the names and the functions of the U.S. representatives in the negotiations.

One of the last remaining hurdles concerned the complex issue of how to unfreeze Iran's assets in a way that would satisfy Iran and accommodate the affected American banks. Talks took place with a watchful eye on the consequences any deal would have for individual banks and the international money markets.

No details have been leaked so far of any of the financial arrangements. However, one official said he expected the Iranians were likely to insist on transferring their unblocked funds out of dollars and into other international currencies. The official said the Iranians were expected to do this as a form of protest against President Carter's original action in freezing Iranian assets in U.S. banks and the consequent moves by the American banks to take advantage of this and attach these assets as a means of pursuing claims against Iran. The fact that the funds may well quickly find themselves back in dollars — or at least part— would not, it was said, affect the Iranian attitude.

The Algerian central bank has been directly involved throughout, but has apparently been reluctant to become physically involved in the transfer of funds. It argued that transactions of this scale were far more tidily done through recognised financial centres.

The breakthrough was an agreement on Friday evening for the U.S. to establish an escrow account in the Bank of England for the initial transfer of $2.5bn of funds held in deposits with the Fed or as gold. This established the principle of using a major international financial institution as a means of transferring funds to the Iranians. According to reports from the Algerian Foreign Ministry, no money had yet been transferred by last night.

How normal channels were used to switch fifty tonnes of gold

BY DAVID MARSH

The swap of Iranian gold between the vaults of the New York Federal Reserve Bank and the Bank of England has a dramatic background. But it represents a routine method used by central banks to transfer gold around the world.

Because of rising insurance and security charges, which have increased sharply during the gold price explosion of the past few years, bullion is very expensive to shift physically. In practice it moves as little as possible, and most of the work is done by the telex operators.

The Bank of England, which plays an important if low profile role on the international gold market, is well used to carrying out the kind of transaction authorised over the weekend.

The roughly 50 tonnes of Iranian gold blocked in the New York Fed since November 1979 were transferred to the Bank of England's ownership in the Fed's vaults. As the counterpart, 50 tonnes of Britain's gold reserves held in London were transferred to the account of the Algerian central bank for disposal by Iran.

A large part of Britain's gold reserves is anyway held in the vaults of the Fed, which stores about 11,000 tonnes of gold in segregated cages on behalf of 73 nations and official bodies. So the upshot of the weekend operation is that rather more of Britain's roughly 700 tonnes of official gold reserves is now underground in Manhattan rather than Threadneedle Street.

Along with the Fed, the Bank of England is one of the select club of central banks which act as official depositories for international gold reserves.

The Bank for International Settlements, the central bankers' bank in Basle, which has over 1,500 tonnes of official gold reserves in its books, has no storage space itself—although it does boast a sophisticated nuclear fall-out shelter—and therefore makes liberal use of the Bank of England's storage facilities.

Evidence of close financial links between the Bank of England and Tehran has already emerged more than once during the 14-month hostage crisis.

Officials from Iran's central bank, Bank Markazi, have been in close touch with the Bank of England and have made several visits. There were red faces in Threadneedle Street in December, 1979, when the Bank Markazi governor was quoted as saying that the Bank was on Tehran's side, on the same day as the U.S. Secretary of State was in London seeking help over the blocking action.

During 1980, Iran transferred back to Tehran around 29 tonnes of gold from the UK as part of a bid to bring home its assets free of possible western interference. It is believed, however, that Iran has still some gold stocks left in the West—which could become important if it wished to use the bullion as collateral for loans. Provided Iran trusts the Bank of England, there is no reason why the 50 tonnes which figured in the weekend operation should be physically transferred to Tehran —especially since the Bank could probably put forward persuasive arguments that the physical custody of the gold would be safer in the City.

Belgian steel groups set for merger

By Giles Merritt in Brussels

BELGIUM'S two largest steel-making groups are to merge under a plan that has been put to the Belgian Government, which is a major shareholder in both, for approval.

The aim is for a single entity out of Cockerill, the Liege-based group that is the country's largest steel producer, and the group of three companies known as the Charleroi "Triangle."

Cockerill's yearly output of about 5m tonnes of crude steel together with that of the Charleroi Triangle would give the new concern an annual production of about 8m tonnes. The plan is also designed to permit rationalisation inside the partners that would involve redundancy for 20 to 25 per cent of their combined workforces.

The threat of up to 4,500 jobs being lost at a single stroke—which compares with about 9,000 jobs lost throughout the Belgian steel industry since 1974 — has already provoked sharp reaction from trade union leaders.

The chief victim of the proposed merger would be one of the Charleroi "Triangle" companies, Thy-Marcinelle, whose main steel-making plant would be closed.

Full details of the merger plans have not yet emerged, although it appears comparable to a scheme put forward late last year by Mr. Willy Claes, Belgium's Economic Affairs Minister, as an element in Belgium's five-year steel industry rescue operation.

The Cockerill-Charleroi Triangle merger was discussed at weekend talks in Brussels between the groups' chief executives, Mr. Claes and Viscount Etiene Davignon, the EEC Industry Commissioner. Viscount Davignon indicated afterwards that the merger is likely to be fully acceptable to the Brussels Commission.

Political crisis deepens over mayor for W. Berlin

BY JONATHAN CARR IN BONN

EFFORTS BY the West German ruling Social Democrat Party (SPD) to overcome the seething political crisis in West Berlin have run into new difficulties.

It seemed clear until late yesterday that the SPD had found a candidate to succeed Herr Dietrich Stobbe, who resigned last week as Governing Mayor of Berlin.

A meeting was to have been held today between the Berlin SPD and its coalition partner there, the liberal Free Democrat Party (FDP), after which the new candidate was to be announced.

But last night it became known that consultations on a candidate had been resumed—and that the meeting with the FDP would probably not take place until later.

Efforts within the SPD to maintain secrecy have been redoubled after the leaking of the transcript of a telephone conversation last week on the crisis between Chancellor Helmut Schmidt and a leading party official.

However, the SPD knows it must produce a candidate of outstanding ability and prestige —either from the very top of the Federal party organisation or from the Bonn Cabinet itself —if it is to remain in power in Berlin.

The crisis erupted after Herr Stobbe failed to gain enough support in his coalition to appoint new members of the city government, after a financial scandal.

This failure has brought increased friction between the Berlin SPD and FDP, and threatens the stability of Herr Schmidt's Bonn Government.

Arab leaders at odds over the Afghan issue

TAIF — Islamic Foreign Ministers meeting in Saudi Arabia in an attempt to heal differences over the Iraq-Iran war disagreed sharply yesterday on another major issue—the Soviet military intervention in Afghanistan.

Conference officials said South Yemen, backed by Syria, argued that Afghanistan should not be put on the agenda for the Islamic summit meeting next Sunday for which the Foreign Ministers are preparing the ground. But Pakistan and Morocco insisted that it should be discussed.

South Yemen and Syria both have friendship treaties with the Soviet Union, while Saudi Arabia and other conservative Islamic countries have been supporting Moslem rebels against the Soviet-backed Government in Kabul.

The radical states led by Syria also disagreed deeply with the conservatives over the four-month-old Gulf war between Iraq and Iran.

Many nations had hoped the Islamic summit might find a way to end the war, but the conflict is still so intense that Iran has boycotted the Ministers' meeting which is working on the summit agenda.

But officials said there were moves to send a delegation to Tehran to try to persuade Iran to attend. In the Iranian capital President Abol Hassan Bani-Sadr said he might attend the summit if Iraq's leader stayed away.

The secretary-general of the 42-member Islamic Conference Organisation, Mr. Habib Chatti, has called for the summit to give priority to finding at least a partial solution to the war.

Other major items on the agenda are the Arab-Israeli conflict and economic co-operation between rich and poor Islamic nations.

Conference officials said delegates were also trying to arrange a meeting between Iraq's Foreign Minister, Mr. Saadoun Hammadi, and the Syrian Foreign Minister, Mr. Abdel-Halim Khaddam, to discuss the deep-rooted differences between those two countries.

Reuter

E. African leaders to renew links

By John Worrall in Nairobi

PRESIDENTS Obote of Uganda, Nyerere of Tanzania, Moi of Kenya and Kaunda of Zambia decided in Kampala on Saturday to enter into active co-operation.

This ended years of uneasy association caused by the collapse of the East African community and the effect of the Amin regime.

The meeting in Kampala, only weeks after President Obote's election to the Uganda Presidency, was obviously intended as a joint gesture of support.

The Presidents were given an enthusiastic welcome by flag-waving, cheering Ugandans. Special welcome was given to President Nyerere, whose armies were crucial in the defeat of Amin. There were shouts of "Nyerere our man, Nyerere our man."

Discussions in five hours of talks centred on the question of reviving important economic aspects of the old East African community, which collapsed in inter-State disagreements in 1977.

It was decided to revive the Inter-State Security Committee to help each other individually and jointly to "achieve and maintain peace and security in the region."

It was also decided to constitute an "authority" to examine reports from Ministers on the assets and liabilities of the former East African community, which have been the subject of considerable controversy since the World Bank-sponsored report was circulated.

The final communique, announced by President Obote, said it was agreed to look into the affairs of the former East African Shipping Line in which Kenya, Tanzania, Uganda and Zambia were involved, and which collapsed recently.

It is understood that the vexed question of the Kenya-Tanzania border, closed since 1977, was discussed at considerable length, but the results of the talks did not appear in the communique.

Nkomo seeks a compromise

BY OUR SALISBURY CORRESPONDENT

MR. JOSHUA NKOMO, leader of the Minority party in Zimbabwe's coalition Cabinet, appeared last night to have averted a direct confrontation with the Prime Minister, Mr. Robert Mugabe, over his demotion in a Cabinet reshuffle eight days ago.

He also seemed to be seeking a compromise with Mr. Mugabe on the crucial issue of who controls security affairs.

The central committee of Mr. Nkomo's PF-ZAPU met for two days at the weekend amid calls from hardliners for the party to withdraw from Mr. Mugabe's coalition in protest at Mr. Nkomo's demotion last week from the Home Affairs Ministry, which controls the police, to the far less powerful Public Service Ministry.

At a Press conference Mr. Nkomo announced that he and


Mr. Joshua Nkomo

his 150-man committee had sent a document to Mr. Mugabe setting out their position. He declined to say whether he had accepted his demotion or whether the message to Mr. Mugabe represented an ultimatum. But he hinted that the compromise proposed by his group involved PF-ZAPU's staying in the Government in return for a greater say in security matters.

The joint control of security is an obligation on both parties and is vital, he said. "The Patriotic Front-ZAPU believes that peace and security in this country depend upon co-operation between PF-ZAPU and ZANU-PF and that co-operation between the two depends on mutual respect."

Mr. Nkomo's statement appeared to indicate that he had overcome demands from party radicals for a pull-out from the Government which could have caused widespread unrest between his and Mr. Mugabe's guerrillas.

OVERSEAS NEWS WORLD TRADE NEWS

UK companies battle for $2.5bn India orders

DAVID HOUSEGO IN PARIS

BRITISH companies stand to win major equipment orders if either a British-led or a German consortium wins the $2.5bn (£1.1bn) turnkey project for a coastal steel mill in India.

It emerged yesterday that GEC, Vickers and Taylor Woodrow are partners in the bid being put forward by Mannesman Demag of West Germany and could capture contracts of between £200m and £300m.

The German proposals are the main rivals to those of the Davy International and British Steel consortium, which Mr. John Biffen, Trade Secretary, will be supporting during his visit to India this week.

Representatives of Davy and Lazard Brothers, the merchant bankers co-ordinating the finance for the British proposal, are in his party.

The British Government attaches considerable importance to the UK bid and it is being backed by substantial concessional aid funds which are not available to British members of the German consortium.

Contrary to previous reports, the two leading bids for an integrated steel mill at Paradip in Orissa state on India's eastern coast which the Indian Government has agreed in principle, are close in price.

The reason, in both cases, for multi-national consortia is India's insistence that any offer must include a complete financial package involving aid, export and commercial credits. No single European Government is willing to bear this risk.

The Indian Government had hoped to take a decision on the contract by the middle of this month but this date has slipped because the Government is studying whether more of the equipment could be manufactured in India as well as reviewing the financial and technological merits of the rival bids.

Under the German bid, GEC stands to win the order for the electrics and for power generating equipment; Vickers for engineering workshops and ancillary services; and Taylor Woodrow, in conjunction with Indian contractors, the civil engineering works.

Austrian, French and Italian companies are also participating in the German bid for which total equipment orders placed outside India are put at about $1.5bn.

It is emphasised, however, that Mannesman Demag would drop the British participation if UK companies were not competitive as a result of price, delivery date or the high value of sterling.

Of the $2.5bn, about $1.5bn would be in export credits, $500m in syndicated commercial loans and the rest in aid. The German financial package is being co-ordinated by Deutsche Bank with Morgan Grenfell involved in the British contribution.

The only previous time that India has looked abroad for such a major turnkey project was in the award last year to Pechiney of France of a $2.5bn contract for an aluminium complex. Of this sum, $680m was raised in syndicated credits—the largest single syndicated loan in Asia last year—and reflected a new readiness by India to tap the international markets to finance its projects.

But since that deal was concluded, the Indian Government has become much more hesitant about incurring extensive foreign debt because of the sharp increase in oil prices.

Indian capital goods manufacturers, with unused capacity, are pressing for more orders.

These factors, together with the complex decisions on whether to look to West Germany or the UK for the technology of the blast-furnaces and the basic oxygen converters, account for the delays.

U.S. move to limit sale of dangerous products

By David Buchan in Washington

PRESIDENT CARTER last week signed a controversial executive order to limit export of products which are considered hazardous enough for their use in the U.S. to be banned or restricted.

"As international merchants, we have an obligation not to export to unsuspecting nations products which we ourselves would not allow in our own country," Mr. Carter said in signing the directive, supported in and outside his Administration by consumer and environmental lobbies but opposed by industry interests.

The order, which can be reversed by the new Reagan Administration, covers a range of pesticides, chemicals, food additives, drugs, cosmetics, medical devices, and electrical and consumer products, whose sale in the U.S. is limited on health or safety grounds.

The action requires only that exporters of such items must get a special export licence, and Carter officials said the main aim was simply to alert foreign countries of the hazardous nature of what they intend to buy from the U.S.

The catalysts for the policy change was the dispute over children's sleepwear with a fire retardant, known as Tris. Because the latter is said to cause cancer, the clothing's sale was banned in the U.S. in 1977, but large export sales continue. In addition, there are many pesticides and drugs made in the U.S., but only for export due to health problems.

Industry officials complained that the Carter action was pointless since foreign countries would simply turn to other sources for products they had previously bought in the U.S.

India's advisers call for 11% increase in exports

BY K. K. SHARMA IN NEW DELHI

INDIA must raise its exports by between 10 and 11 per cent a year in real terms to ensure that economic development is not hampered by foreign exchange constraints.

This is the main recommendation of a top-level committee appointed to suggest an export strategy for the 1980s.

In its report to the Indian Commerce Ministry, the committee says the target is essential as oil imports constitute about half of the total import bill. The trade gap in 1980-81 is estimated at Rs 50bn (£213m).

Among measures recommended by the committee are access for exporters to raw materials at international prices, improved quality and delivery schedules, an increase in exportable surpluses and a change in the role of public agencies engaged in the export effort.

The committee has also made several recommendations for increasing exports of projects, consultancy services and those of public sector undertakings. Industrial units which export more than 25 per cent of their production continuously for a period of three years should be allowed to import duty free capital goods, it says.

The report suggests fiscal concessions for encouraging investment in export production. With regard to agricultural products, it recommends the establishment of a revolving fund for increasing the production of export-oriented crops.

Pointing out that export surpluses do not emerge automatically, the committee has said that there should be temporary restraints on domestic consumption in the event of shortages to maintain export markets since it is difficult to regain them once they are lost.

To improve the export of electronics products, the committee recommends better facilities for the Santa Cruz export processing zone at Bombay since concessions for it are below those offered in neighbouring countries.

The report points out that developing countries must now shift from export of raw materials to value-added derivatives, citing the example of the Kudremukh iron ore project for Iran and the aluminium complex to be set up in the state of Orissa with French collaboration. The Government, it says, should think of many more such projects which are based on mutuality of interests between a developing country and a highly developed one.

Biffen takes his first mission to New Delhi

BY PAUL CHEESERIGHT

MR. JOHN BIFFEN, the new Secretary for Trade, has embarked on his first excursion into trade diplomacy with a visit to New Delhi for talks with Indian Government leaders and a meeting of the Indo-British Economic Committee.

His visit is further evidence of the Government's determination to use high level political contacts as a means of boosting UK exports which, in the first 11 months of last year, came to £409m, or £33m more than in the same period of 1979.

It follows the recent tour of India by Prince Charles and precedes a visit by Mrs. Thatcher, the Prime Minister, next March.

The Indian Government has major plans to develop the industrial infrastructure in the shape of coal mine expansion, rail modernisation, power station and steel plant construction and growth in the fertiliser industry. But there is increasing pressure within the country for more and more of the work to be done by Indian corporations.

At the same time competition from groups in countries like France, Italy and West Germany has increased.

The Biffen mission is therefore designed to support British groups in the scramble for available contracts, in the knowledge that Indian foreign exchange reserves are limited.

This is reflected in the composition of his mission which includes representatives from Davy Corporation, seeking a steel plant contract, and Humphreys and Glasgow, which is interested in fertiliser plant contracts.

Israel's foreign sales rise 22%

BY L. DANIEL IN TEL AVIV

ISRAEL'S exports of electrical and electronic equipment jumped by 54.5 per cent last year to reach $256.6m (£106m), while its sales abroad of aircraft and aircraft parts fell 7.4 per cent to $211.4m.

Big increases were chalked up by mine and quarry products, up 50 per cent to $168.3m and, in spite of adverse world market conditions, by textiles and clothing which rose 41 per cent to $493.5m and chemicals, rubber and plastics products which at $846.7m, were up 36 per cent.

The overall result was an increase of 22.4 per cent in visible exports to $5.3bn with the main rise (30 per cent) in industrial exports other than diamonds, to $3.3bn. Overseas sales of polished gem diamonds rose by 8 per cent in volume and 15 per cent in value to $1.4bn. Agricultural exports, on the other hand, increased by only 4 per cent in value to $576m.

Overall exports this year are expected to reach $7bn.

● Koor, the industrial holding company of the Israel Labour Federation, which controls more than 100 plants, increased its exports to $390m last year form $271m in 1979 and expects to reach $47m in the coming 12 months.

Exports accounted for 27 per cent of total Koor output in 1980 (against 23 per cent in 1979) and are slated to reach 30 per cent this year. The sharp upturn in overseas sales in 1980 indicates that Koor has found alternative markets to Iran, which was one of its most important outlets.

This is all the more important because home market sales have dropped 7 per cent in real terms.

Israel award

BANK HAPOALIM BM is to to sponsor a series of annual awards to British businessmen and companies who have played the most significant part in promoting British-Israel trade and investment in Israel during 1979-80.

SHIPPING REPORT

Second-hand trade healthy

BY OUR SHIPPING CORRESPONDENT

THE LAST 12 months have been a fairly healthy period for the second-hand ship market. According to the latest statistics published by Lambert Bros., the London brokers, total trading volume rose by 12 per cent to $7.8bn.

The increase occurred despite a drop of almost one-fifth in the total tonnage bought and sold. In 1980 shipowners sold 36.4m dwt for further trading which compares with 44.9m dwt in 1979.

Far Eastern owners, particularly the Chinese, were active buyers of second-hand tonnage.

Lambert Bros. estimates that out of total Far Eastern purchases of 7.2m dwt, the Chinese bought 2.4m dwt, Hong Kong owners bought 1.8m dwt and South Korean owners 1.2m dwt.

The big difference between 1979 and 1980 was the behaviour of prices for large tankers. The value of five-year-old, very large crude carriers nearly doubled in 1979 to $25m but dropped by over a quarter to $18.5m last year.

For older vessels the about-turn in prices was even sharper and ten-year-old VLCCs are changing hands at $7m compared with $11.75m a year ago.

The biggest increase was in the value of semi-submersible drilling rigs. Oslo shipbrokers, P. F. Bassoe, estimates that prices doubled to about $80m per unit over the 12-month period.

Lambert Bros. estimates that 10.9m dwt of shipping was scrapped in 1980.

THE U.S. ECONOMY

Carter team urges caution on Reagan

BY JUREK MARTIN, U.S. EDITOR, IN WASHINGTON

THE CARTER Administration has warned the incoming Government to be persistent and cautious in tackling economic problems rather than going for dramatic solutions.

The annual report of the President's Council of Economic Advisers, released this weekend, says that heavy tax cuts for individuals, as promised by President-elect Ronald Reagan, might stimulate production but would also heighten inflationary pressures, assuming that monetary policy remains tight.

Mr. Charles Schultze, the chairman of the council, argued at a briefing that what the economy needed was more investment. This was much more likely to be achieved by carefully-targeted tax cuts for business than for individuals.

The only way, he said, in which deep cuts in personal income taxes could be justified was by matching surgery on Government spending. This, of course, is precisely what the incoming Reagan Administration is promising, though Carter Administration officials doubt that they can be achieved from a practical standpoint, or without great political risk.

Mr. Reagan and his aides have pledged to unveil substantive economic decisions shortly after taking office tomorrow. A part of their package of tax and spending cuts will be a commitment to the so-called Kemp-Roth principle of an annual 10 per cent tax cut in each of the next three years. But there is some doubt whether the tax cuts for individuals will be made retroactive to the start of the year.

Mr. Carter's final (and somewhat academic) budget last week proposed deferring personal tax cuts until next year because of the inflationary risk.

The thrust of the economic advisers' report is very much directed at inflation. "The uncertainty it has brought with it cannot be measured, but the consequent anxiety has torn at the fabric of our society."

Charles Schultze: 'tax cuts for business'

The report foresees little immediate improvement. It does not, for example, believe that productivity will get much better in the next year and could even decline in the course of 1981.

Wage and salary increases are likely to be in the 10.5-11 per cent range this year, versus 10.2 per cent last year. International oil prices are likely to go up rather more than the general rate of inflation and the Iran-Iraq war has made oil supplies more problematical.

The report endorses the monetary policy espoused by the Federal Reserve Board. But it says it may be necessary for the Central Bank occasionally to deviate from its longer-term growth targets to deal with exigencies. Any loosening of the purse strings should not mean that the monetary fight against inflation is being lost.

For all its emphasis on the need for restraint, the report also finds reason to be satisfied with recent economic performance, most particularly on the external side.

World Economic Indicators

WORLD ECONOMIC INDICATORS
UNEMPLOYMENT

	Dec. '80	Nov. '80	Oct. '80	Dec. '79
UK 000s	2,244.2	2,162.9	2,062.9	1,355.5
%	9.3	8.9	8.5	5.6
Germany 000s	1,118.5	967.5	888.1	867.0
%	4.3	3.7	3.4	3.3
	Nov. '80	Oct. '80	Sept. '80	Nov. '79
France 000s	1,613.0	1,585.1	1,519.0	1,472.7
%	7.2	7.1	6.8	6.6
Italy 000s	1,795.3	1,796.7	1,784.9	1,672.7
%	8.2	8.2	8.1	7.6
Netherlands 000s	296.7	278.2	269.1	209.5
%	5.8	5.4	5.3	4.1
Belgium 000s	425.3	425.7	425.8	368.2
%	10.5	10.5	10.5	9.1
U.S. 000s	7,924.0	8,005.0	7,827.0	6,044.0
%	7.5	7.6	7.5	5.8
	Oct. '80	Sept. '80	Aug. '80	Oct. '79
Japan 000s	1,130.0	1,090.0	1,150.0	1,110.0
%	2.0	2.0	2.1	2.1

Italimpianti wins $65m steel deal

By Diana Smith in Lisbon

ITALIMPIANTI has signed a $65m (£27m) contract with the Siderurgia Nacional, the Portuguese State steel corporation, under which the Italian concern will design and equip the new blast furnace for the corporation's Seixal site, and re-vamp the 30-year-old blast furnace at the same site.

The unit will produce 1m tonnes a year, bringing Portugal's total capacity to 1.6m tonnes. Schloemann-Seimag of West Germany is supplying the $30m continuous casting and rolling mill, while Voest Alpine of Austria and Kawasaki of Japan, respectively, will supply the new converters and cleaning units.

The Seixal mill is part of a $1bn long-range national steel plan destined to bring production capacity and diversification up to West European levels. Portugal hopes to accede to the Europen Economic Community in 1983.

Italimpianti won the blast furnace tender against the competition of Davy International, Nippon - Kokan, Nippon Steel, Delattre of France and the German group, GHH.

It is understood that Portuguese steel experts were moved to choose the Italian suppliers partly because they were especially impressed by the new Italimpianti Piombino works and partly because suppliers' credit conditions offered through a consortium of Italian banks stretched benefits to what has been described as the maximum level of Euromarket tolerance.

There are other advantages for Portugal in the Italimpianti deal: the Italian side has agreed to absorb part of Portugal's future steel surplus and, in return, sell a wide range of manufactured steel products that are not made here.

At the same time, it has undertaken to draw on the Portuguese Metallo-mechanical industry for components for new steel units it is building in other foreign countries, thus bringing new technology to Portugal and providing increased export opportunities.

Libya suspends gas for Italy

ROME—Libya has suspended natural gas shipments to Italy following failure to agree a new price, the Italian state holding company Ente Nazionale Idrocarburi (ENI) said.

An ENI official said supplies were suspended several days ago. He was confirming a report by the Arab Gas and Oil Bulletin that shipments ceased following the breakdown of price negotiations between ENI and Libya which started last April.

Under an agreement signed last January, Italy was importing 2.5bn cubic metres a year of Libyan gas, he said. Reuter

UK NEWS

'Restore expansionary policies' call

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

INDUSTRIALISED countries should return to expansionary policies and seek ways of saving energy if the world economy is to achieve acceptable rates of growth, the Cambridge Economic Policy Group says in a review this morning.

If present policies are maintained, developed countries as a whole are unlikely to grow by much more than 1 per cent a year up to 1985, not nearly enough to avoid further substantial rises in the already high levels of unemployment.

The Group, based at the university Department of Applied Economics and headed by Prof. Wynne Godley, discusses the conditions for a renewed and sustained expansion of the world economy. This is based on a quantified model of the international economy.

The review says that the present phase of endemic recession could have been avoided. It stems from fundamentally mistaken deflationary policies which most developed countries, encouraged by international institutions, have adopted in response to successive oil price rises.

The central conclusion is that the rate at which the world economy can expand depends critically on progress in saving energy and developing new supplies.

Higher oil prices are an important means of encouraging progress in these areas, and to that extent should be regarded as beneficial rather than something to be avoided at all costs.

Developed countries must revert to expansionary policies. These will certainly lead to larger current account deficits.

Some way must be found of financing these deficits from the surpluses of the oil-producing countries, and of avoiding the risk of currency collapse as expansionary policies are adopted. Increased management of foreign exchange markets will be necessary.

Higher growth and larger deficits will not necessarily lead to a high rate of inflation, but allow tax cuts and higher real income growth, reducing pressures for inflationary wage rises.

Even with these policies, differing degrees of competitiveness will lead to widening trade imbalances in industrial goods, with adverse effects on output and employment in certain countries.

Protection is recommended for the less successful trading nations, including the U.S.

The Cambridge economists contrast these proposals with the present position where deflationary policies, by holding down oil prices and cutting deficits, have reduced the impetus to seek effective solutions to oil scarcity, while depressing trade and entrenching inflation.

Cambridge Economic Policy Review, Vol. 6, No. 3, World Trade and Finance: Prospects for the 1980s, by Paul Atkinson, Iain Begg, Francis Cripps, Michael Anyadike-Danes and Graham Gudgin. Gower Publishing Co., 1 Westmead, Farnborough, Hants. £6.90.

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Stockbrokers conflict on economic recovery

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

SHARPLY DIFFERENT views of the medium-term economic outlook come this morning from two leading City stockbrokers.

In a major new study, Wood Mackenzie argue that the UK economy is close to a turning point. After the current recession total output should rise by 3 per cent in 1982 and by 2 per cent in 1983.

The inflation rate is now on a downward trend, and while there may be a modest hiccup in 1982-83 as economies recover, the annual rate should be in single figures in 1982 and in 1984-85.

In contrast, brokers Phillips and Drew warn that Britain will continue to suffer from a combination of extremely low growth and relatively high inflation despite North Sea oil and the Government's economic strategy.

According to Phillips and Drew, total output will decline by between 2½ and 3 per cent this year and will rise by 2.2 per cent in 1982 and by only 1 per cent in 1983.

The annual inflation rate is expected to be in single figures in 1982 but to average 12½ per cent a year in 1983-85.

On unemployment, Wood Mackenzie project a peak adult total of more than 2.7m in 1982 and a slow decline thereafter.

In the immediate future, Wood Mackenzie expects public sector borrowing to decline from about £11½bn in the current financial year to just under £10½bn in 1981-82 and to below £9bn in 1982-83.

Increase in National Savings intake

By James McDonald

NATIONAL SAVINGS receipts in December totalled £509.3m and repayments amounted to £183.8m, including accrued interest, resulting in a net intake for the month of £325.5m.

The new index-linked National Savings Certificate issue was again the main contributor to the increase with a net intake for the month of £222.1m. But there was a net outflow from other National Savings Certificates of £24.5m and pre-Christmas spending was reflected in a net outflow of £10m from National Savings Bank ordinary accounts.

There was a healthy flow of money into National Savings Bank investment accounts.

Rate of motor insurance rises likely to fall

BY ERIC SHORT

THE CONTINUING fall in the rate of inflation should enable insurance companies to slow down the rate of increase on motor premiums this year, while still significantly reducing their underwriting losses. These are the conclusions drawn by leading stockbrokers, Rowe and Pitman, in its annual review of UK motor insurance.

Rowe and Pitman forecast that motor premiums will rise on average by 15 per cent this year, compared with increases of 19.6 per cent last year and 19.1 per cent in 1979. It expects underwriting losses this year of the ten leading quoted insurance companies will fall to £10m in 1981 from losses estimated at £25m for last year and peak losses of £55m in 1979.

These forecasts, however, depend on the UK's weather pattern remaining normal. The bad weather in the winter of 1979 saw the number of accidents rise steeply in the first quarter of that year. With high levels of inflation these caused record losses for motor insurance.

Last year, a mild winter led to a fall in the number of accidents to more normal levels. Underwriting losses reduced accordingly.

The review points out that motor insurance business in the UK has grown rapidly during the past five years. It now accounts for 13.3 per cent of total worldwide general premium income for the major UK composite insurance groups.

Guaranteed yield bond again available

By Eric Short

PREMIUM LIFE Assurance Company has launched a two-year guaranteed income bond, the first to be marketed since last year's Budget when Sir Geoffrey Howe, the Chancellor of the Exchequer, curtailed the sales of such bonds by life companies.

Before the Budget, life companies were offering yields of up to 18 per cent net of basic rate tax on one- and two-year bonds. This yield was achieved by combining two or three life contracts in a package which would make maximum use of the tax relief granted to regular premium life policies.

None of the policies taken on their own was profitable for the life companies.

The Budget virtually banned such artificial arrangements by withdrawing tax relief. This relief effectively adds 21.1 per cent to the premiums paid by the investor. Sales of one- and two-year bonds ceased overnight.

The re-launched two-year bond relies, like its predecessors, on tax relief to offer a net 12 per cent yield. Mr. Peter Connor, managing director and actuary of Premium Life, said the bond in no way infringed the 1980 Finance Act, which implemented the Budget proposals. The bond conformed to the practice notes issued by the Inland Revenue concerning the Act.

This means that each policy in the package stands on its own actuarially and can be bought separately from Premium Life. Mr. Connor said the policy in the package which received the tax credit had been approved by the Revenue as a qualifying policy.

But he had not submitted details of the bond to the Revenue, since he was under no obligation to do so—a point which was confirmed by the Revenue.

Bisgood to deal in U.S. stocks

BY CHRISTINE MOIR

THE GROWING volume of business in U.S. stocks which is being transacted through the London market has encouraged a third jobber to begin making markets in U.S. and Canadian equities.

On March 2 Bisgood Bishop, one of the five largest jobbing firms, is to join Wedd Durlacher Mordaunt and Akroyd & Smithers—by far the two largest jobbers—in making London markets in U.S. stocks.

Bisgood is starting with a small selection, in the popular oil and energy exploration sectors, but plans to extend to the full range of North American equities.

Mr. Rory Forrester, Bisgood's senior dealing director who has been responsible for developing the portfolio, says the move is designed to take advantage of the growing volume of foreign dealing business being transacted through the London market.

Continental interest in U.S. stocks has been growing rapidly in the past year or so, and this has coincided with the removal of exchange control restraints on UK investors.

Although both groups of investors have the ability to deal directly with the foreign markets—the more so since the Stock Exchange amended its international dealing rules to allow brokers access to outside market makers—much business is still coming through the London floor.

The tendency to stick to familiar dealings mechanisms is one reason for this. There are two other positive attractions in dealing through London.

The first is the time difference between London and New York. Both Continental and U.S. investors are becoming increasingly active, it is claimed, in using the London market in the morning to deal ahead of the New York opening.

The second is the settlement mechanism. London "dealing for account" structures, which give buyers a fortnight to pay, offer better terms than the normal five-day settlement of international dealing traditions.

The precise size of the London market in North American stocks is hard to judge but Mr. Forrester believes that total foreign business, of which these markets from a substantial part, could be as much as double the business done in UK equities.

Akroyd and Smithers says it has not experienced a "mammoth explosion" in foreign business recently, with the exception of hectic speculation in Canadian oil exploration companies, but agrees that Continental interest is strong.

Wedd also seems happy with its acquisition last May of Medwin and Lowy, the 120-year-old jobbing firm which has always specialised in North America.

Medwin said then that it welcomed the merger with Wedd because turnover in foreign securities had doubled since exchange controls were lifted and it needed more "financial muscle" to take advantage of the new market. Mr. Cyril Stephens, Medwin's retiring senior partner, predicted further strong growth in business in North American stocks.

Doubt raised over Irish gas pipeline

By Our Belfast Correspondent

THE British Government is pessimistic about the prospect of piping natural gas to Northern Ireland from the Kinsale Field, off the Irish Republic.

Mr. Adam Butler, the new Minister of State responsible for industry in the province, has promised a decision by the end of April on the Dublin Government's offer of a gas supply.

The Irish Republic said last week that it would proceed with a pipeline, to bring the gas from County Cork to Dublin, costing about £80m and due for completion by 1985.

According to Mr. Butler the Government would "seriously examine" the idea of an Anglo-Irish venture to extend the pipeline into Ulster. But he and his officials expect the proposal will have to be rejected, largely because of costs in securing a supply for relatively few consumers.

Northern Ireland has 150,000 industrial and domestic gas-users. They are supplied by 13 separate undertakings, private or local authority. By the time natural gas could be on tap this will have dwindled because of the closure of some smaller operators.

The Government is overseeing a rundown of the gas industry following its decision against a natural gas pipeline across the Irish Sea from Scotland. The complete closure of the industry would cost the Government about £100m, including meeting the debts of the undertaking and providing grants for conversion to other fuels.

Mr. Butler said on Friday he awaited answers to "crucial questions" from Ireland's Department of Energy before he could properly evaluate the pipeline idea.

CBI looks at new strategy on wages and productivity

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

NEW POLICIES on pay bargaining, productivity, and education and training are being examined by leaders of the Confederation of British Industry.

They will be in the CBI's "medium-term strategy" being prepared by Sir Terence Beckett, the director-general.

Writing in the CBI members' bulletin, renamed this month CBI News, Sir Terence says: "We are in a mess, so we must have a strategy to get out of it."

"We must adopt new ideas and methods to give us the edge on world markets."

Industrialists should not expect "overnight miracles" but "we must not muck about over this. We have got to get back to prosperity so we must not just talk about it. We must take the steps necessary to bring it about."

The CBI is expected to adopt a tough stance over the need for companies to modernise pay procedures and seek to increase employees' understanding of economic matters. Industrialists fear that what the CBI calls the "present realism over wage claims" will vanish if the economy improves.

Consideration is being given to use North Sea oil revenues to help industry climb out of the recession.

Sir Terence will stress when he launches the document that many changes in attitudes and practices must be carried out by industry itself.

But, he says, "we also look to changes in attitudes from the Government." Some of these will be spelt out soon when the CBI presents the Government with its Budget requests, including partial abolition of the National Insurance surcharge.

Telephone cancellations increase

BY JASON CRISP

THE NUMBER of companies and individuals discontinuing their use of telephone lines has grown sharply. Two price increases last year totalling more than 30 per cent, with the general problems of the recession, are the main reasons.

British Telecom estimates that "cessations" in the financial year ending March 31 will reach 900,000 compared with 668,000 the previous year.

The network's growth has slowed markedly. The net increase in exchange lines is expected to fall to just over 900,000, compared with 1.23m last year. Much of the fall is accounted for by the increase in *disconnections.*

British Telecom estimates there will be 1.51m connections in this financial year. 91,000 fewer than it originally expected. British Telecom believes that by the end of March there will be 18.5m exchange lines in use in Britain.

The network's volume of traffic remained buoyant although lower than British Telecom expected. There are likely to be 35m fewer trunk calls and 140m fewer local calls, representing about 1 per cent of total traffic.

Executive job level is 'worst recorded'

BY LYNTON McLAIN

VACANCIES for management executives in the past quarter were 9 per cent below the previous lowest recorded level, 10 years ago, says a survey published this morning.

MSL management consultancy said the results of its latest survey, for the last quarter of 1980, showed that demand for executives had slumped by more than 30 per cent in 12 months "with no sign of early relief."

The survey measures demand by employers for managers and senior professional and technical staff, as shown by the number of executive jobs advertised in selected newspapers.

The results showed that Britain faced "the worst recession in executive employment in the experience of today's operating managers," said Mr. Garry Long, managing director of MSL.

The next three months were unlikely to show a major change in demand for executive, though latest figures suggested that the decline in demand might be about to slow.

Demand for executives in personnel appointments has fallen particularly sharply, by more than 40 per cent since the first quarter to the lowest since 1959.

Appointments in the computer sector dropped by just under 40 per cent.

BMW (GB) forecasts sales rise

By Kenneth Gooding, Motor Industry Correspondent

BMW'S British subsidiary expects a significant increase in both car and motor-cycle sales this year, according to Dr. Walter Hasselkus, the company's managing director.

Even though the UK new car market is expected to fall from 1.71m last year to 1.4m in 1981, BMW (GB) says its sales should rise from 13,451 to 15,000 this year. This would push up BMW's market share from 0.89 to 1 per cent.

The increase will come from the better availability of smaller 300 series models and a net rise in the number of BMW dealers.

Dr. Hasselkus said the British bought a bigger percentage of the high-priced cars than any other country. The company had doubled production of the £21,000 "special equipment" version of its 735 saloon for the UK market from ten to a 20 a month.

In 1981, BMW plans to sell 32 per cent more motor-cycles in the UK—up from 2,500 to 3,300 in line with a rise in the total market and helped by the introduction of a new model, the 80GS. Police forces only took 250 motor-cycles last year. But this is expected to rise in 1981.

Dr. Hasselkus said the company's marine engine business, started 18 months ago, sold 368 engines last year against 194 in 1979 and results from the recent UK Boat Show were encouraging.

In 1980, BMW (GB) had a turnover of around £105m. Dr. Hasselkus would not give details but said profits were "satisfactory."

The high value of the pound compared with the Deutschemark helped the company to hold prices while adding equipment to its cars to give better value for money.

The last price increase was of only 1.5 per cent in April and if the value of the pound stayed high, he did not see any reason for any significant price increase this year.

Brewing industry faces European penetration

By Gareth Griffiths

EUROPEAN brewers are considering entering the UK brewing industry, traditionally an industry with very low import penetration.

Mr. John Burr, chairman of Bass Export and president of the Common Market Brewers' Association (Communauté de Travail des Brasseurs du Marché Commun), said he felt a move by a European brewer was now a strong possibility.

The UK, the second largest beer market in the EEC, is the only country without any non tariff barriers for imported beer.

Beer sales in Europe have shown few signs of growth. There are fears the large West German market is now saturated. Mr. Burr said he was not optimistic about the general potential for expansion.

Several British brewers have technical and licensing arrangements with European companies, particularly for lager production. The EEC Commission is examining the tied house arrangement for British public houses. A decision on marketing outlets will have to be made when a competition *dispensation* runs out next year.

Some European companies therefore think the UK market could offer a potential market. The French company, Boussois Souchon Neuvesel, which owns Kronenbourg, has already expressed interest in moving into the British market.

Demand for road freight expected to remain weak

BY LYNTON McLAIN, TRANSPORT CORRESPONDENT

DEMAND for road freight services is expected to remain weak and will not recover significantly until 1983, according to a survey of prospects for the transport sector published today.

The slowness of the rate of recovery is underlined by Cambridge Econometrics, who forecast *that the record demand for* road freight in 1979 would not be repeated until 1989.

This would reflect a very slow rate of recovery for the economy as a whole.

Nevertheless, demand for transport may show less drastic changes in the 1980s than other industries, the survey shows. This is because the transport sector is involved whether goods are produced at home or imported.

Last year, activity in the road freight industry measured in tonne-kilometres, was estimated to have fallen by 5 per cent from the record 104.6bn-tonne-kilometres recorded in 1979.

But projections by the Cambridge group suggest that the worst of the recession may already be over for the road freight industry.

Rail freight, on the other hand, is expected to be "dragged down further" by the troubles of the steel industry, the survey says. The transport of iron and steel by British Rail in 1979 accounted for less than 15 per cent of its total freight tonnage of 169.3m tonnes, according to Government figures published earlier this month.

This compared with a figure of nearly 20 per cent 10 years earlier and shows the decline in the importance of rail as a mode of transport for iron and steel *at the expense of road transport,* which now accounts for about 80 per cent of all iron and steel transport.

In the road freight sector, investment in new commercial vehicles is expected to fall by about 9 per cent this year compared with 1980. This compares with a fall of 7 per cent in the investment by companies in the economy as a whole forecast by the Cambridge Group.

The Society of Motor Manu*facturers and Traders* estimated earlier this month that sales of commercial vehicles could fall by 8 per cent this year to about 240,000 vehicles.

In 1980 sales fell 11.4 per cent to 266,219 vehicles compared with 1979, when sales boomed.

Retail groups operating vehicle fleets on their own account are likely to be the first to re-equip with new vehicles, in 1982. Public haulage companies are expected to be next to re-equip and companies in the manufacturing sector are expected to re-equip last.

BSC urges companies to spend training grant

BY ALAN PIKE

COMPANIES in areas hit by steel closures are being urged to help BSC Industry, the British Steel Corporation's job creation subsidiary, to spend £1.4m by the end of March.

The European Social Fund allocated the money for training grants. Mr. John Dunbar, chief executive of BSC Industry, said the grant expired on March 31. The company was seeking a further tranche.

Grants can be used to equip unemployed workers with skills to take on jobs, and to retrain existing workers whose jobs might otherwise be threatened. Training programmes must be more than 100 hours long and receive industrial training board approval.

CONTRACTS AND TENDERS

UK NEWS

Aluminium makers face crisis as world demand falls

BY ROY HODSON

HIGH power costs and a slump in international demand for aluminium are provoking a market crisis for producers, including the three big British smelting companies—Anglesey Aluminium, Alcan, and British Aluminium.

Aluminium ingot stocks held by non-Communist countries have risen to the danger point of 2m tonnes, according to an analysis by the International Primary Aluminium Institute in London. There has been a 50 per cent increase in stocks in six months.

Survey

The metal markets expect recovery in the demand for aluminium to lag behind a general rise in industry activity this year.

Life will be uncomfortable for smelters with higher than average costs, including the British smelters, according to a new survey of world aluminium by Anthony Bird Associates of London.

Aluminium production capacity is expected to increase at a rate of 3.8 per cent a year for the next two years. After 1982 the spate of new production projects in Australia, Brazil and Asia is expected to raise the growth of production capacity by more than 7 per cent a year.

Forecasting that the average rate of consumption growth will be much slower, Bird Associates comments: "Life will be uncomfortable for smelters with higher than average costs."

The Bird analysis argues that the world economic recession is over and that industrial activity is starting to rise again in most countries, and is likely to gather momentum from the end of the year.

The survey said: "But aluminium is still firmly in the grip of the slump. Metal markets were slow to feel the onset of the industrial collapse.

"Correspondingly the recovery will be slow to work through and not much of a pick up will be seen before the end of the year.

"The present high production rates of aluminium will mean that there will be plenty of stocks available to meet the rise in demand when it does come."

The survey warns that consumers will be avoiding any increase in their commitment to use aluminium as higher energy costs are reflected in higher aluminium prices.

Demand

It is suggested that consumers may even consider switching back to the older metals and that producers "will have to accept that aluminium's poor competitiveness will mean a very moderate rate of long-term growth."

The Japanese Government is responding to the pressures of poor domestic demand for aluminium and rising stocks by planning a national stockpile.

Bird Associates forecasts that the international industry will suffer a decline from 92 per cent capacity working last year to 82 per cent capacity working in 1982.

* *Aluminium Analysis, Anthony Bird Associates, 193 Richmond Road, Kingston-upon-Thames, Surrey.*

Initial signs of public optimism emerge

THE CHRISTMAS holidays and the January sales appear to have boosted the level of consumer confidence, which has started to rise again after a sharp fall during the past two months.

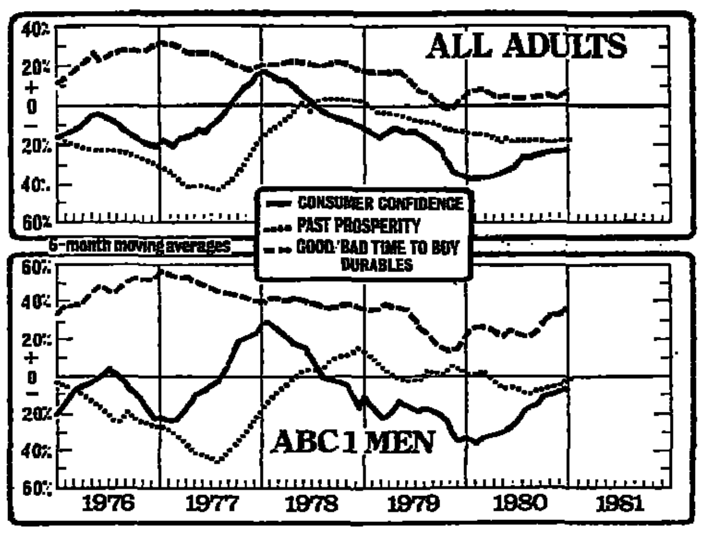
The Financial Times Survey of Consumer Confidence for January shows that of the 1,046 adults surveyed 22 per cent expect prospects to improve while 44 per cent expect a deterioration. This gives a balance of minus 22 compared with minus 31 in December, a rise of nine points this month.

But although confidence is still at a fairly low level most of the indices used by the survey show an increase in consumer optimism.

The six-monthly index for January, which gives a more accurate picture of the trend, has improved to a balance of minus 24 per cent—its highest level for 15 months.

The main reason for the pessimism given by consumers is the high level of unemployment. This is cited by 51 per cent of the pessimists and reflects growing worries over unemployment. The issue has been the main worry of consumers surveyed since the middle of last year.

The separate unemployment index showed a small rise for the fourth successive month. Some 56 per cent of consumers on balance think unemployment will increase over the next couple of months.



FT Consumer Confidence Survey
By Gareth Griffiths

Not surprisingly, the pessimism is deepest in the depressed regions and there was a rise to 66 per cent on balance in Scotland and the North-East, a record for the second successive month. In all areas a majority of consumers believe unemployment will continue to rise.

There continues to be a high level of criticism from consumers over the Government's economic strategy. The second most common reason for pessimism is Government policy, to which 23 per cent of consumers attribute their pessimism. Inflation has continued to play a less significant role in the rasons for worry and is now cited by 16 per cent, just half the level of six months ago.

Among the smaller band of optimists 62 per cent gave their reasons for hope as the rather nebulous answer that things must improve. Some 26 per cent remained loyal to the Government and gave its handling of the economy as a major reason for optimism.

The January sales have traditionally boosted the Good Time to Buy index. Some 49 per cent of the survey think this is a good time to buy compared with 37 per cent last month. Some 33 per cent thought it was a bad time to buy compared with 42 per cent in December.

The size of the rise in the index—21 points, which is higher than in previous years—suggests consumers are now more bargain-conscious than they were two or three years ago.

Two consumer nations appear to emerge from an analysis of the confidence levels of the various socio-economic groups. The ABC 1 group (the professional and executive class) is as optimistic as at any time during the last 18 months. In contrast, the C to DEs (the manual working group) are fairly gloomy, although they are slightly more hopeful this month.

The FT Survey of Consumer Confidence was carried out between January 1 and 8 by the British Market Research Bureau.

Greater polyethylene costs will hit packaging

BY MARTIN DICKSON

THE PRICE of polyethylene used to make packaging and wrapping for a wide range of industries will increase substantially during the next three months, the Packaging and Industrial Films Association has warned.

It said that the rise in raw materials prices came at a time when the market was severely depressed and many companies were operating under difficulti conditions.

Excess productive capacity and foreign competition had forced PIFA members to cut their prices substantially in many sectors to levels where they could not recover manufacturing costs.

The price rises follow a large increase in the European contract price of naphtha — a basic petrochemicals raw material—from about $310 a tonne in last year's final quarter to about $360 a tonne in the first quarter of this year.

Chemicals companies are in turn raising the price of their bulk polymer products—partly because of their raw materials cost increases and partly in an attempt to restore some of their price margins.

ICI is increasing its low-density polyethylene (LDPE) prices on February 1, taking the price of general purpose film resins to around £530 a tonne—about 10 per cent up on this month's level and a 25 per cent increase since December. Other manufacturers are planning similar increases.

However, ICI reckons that the new prices will not be sufficient to restore profitability to the LDPE business. It argues that price pressures stemming from a 12 per cent decline in the European LDPE market last year mean that no West European LDPE producer is making a profit.

Charities ask for VAT relief

Financial Times Reporter

THE Spastics Society will today ask Mrs. Thatcher to relieve it of the "crushing burden" of VAT as her personal contribution to the International Year of Disabled People.

In a letter to the Prime Minister the Spastics Society, with seven other associated *charities, calls on her to relieve* them of the £1.3m they pay jointly in VAT each year.

The letter quotes a pledge in July, 1972, by the then Chancellor of the Exchequer that "if particular charities could demonstrate a serious disadvantage in the light of all the tax changes made by the 1972 Finance Act, he would be willing to look at ways of relieving the problems of categories of charities."

The Spastics Society says previous applications have always been rejected, but it asks for its request to be reconsidered in the light of financial difficulties which have led to the closure of services. For example, in November it closed a job service which had helped nearly 4,000 people, to make a saving of £25,000.

"We are in a very serious financial position with our highest deficit ever of £823,000. Yet, *as local authorities cut* back, we are needed more and more," the society elaborated.

Last year it paid £220,000 in VAT and estimates are that this year's figure will be £250.000. By 1982 it estimates that payments made since the Finance Act was introduced would be £1m.

Last November the Government exempted non-profit-making sports and recreation bodies from VAT under section 15 of the Act. The Spastics Society says: "We cannot believe that the Government would put sport above the desperate needs of a handicapped child or elderly person."

Oppenheim's recipe for a good business

By Gareth Griffiths

BRITISH INDUSTRY should realise that good consumer practices were good for business, Mrs. Sally Oppenheim, the Consumer Affairs Minister, said at the weekend.

Most successful businesses and industries went far beyond the requirements of consumer protection law in their practices and this helped build up goodwill. There was no doubt that consumer concern was especially important at a time of heightened competition, she said.

Mrs. Oppenheim told the UK Federation of Business and Professional Women *in Harrogate* on Saturday that she was sympathetic to criticisms about the cost of consumer protection. But enlightened and flexible marketing policies, which placed the consumer at the forefront of company thinking, were the pointers to long-term profitability and even survival for industry.

UK NEWS — LABOUR

Solidarity seeks supplies from Western unions

BY CHRISTIAN TYLER, LABOUR EDITOR

AN APPEAL from Solidarity, the independent Polish trade union, for its Western counterparts to provide material and political support has been passed on by an official of the *International Metalworkers'* Federation who recently visited the country.

The most pressing need in all Solidarity's offices is for gifts of printing equipment such as *table-top offset machines, simple* photocopiers, typewriters, staplers and good quality duplicating paper for their regional and plant bulletins. Many of these items are said to be *unavailable in the country.*

The union's activists are also asking for information, preferably translated into Polish, to help them improve what the metalworkers say are serious *organisational* weaknesses. The requirement is for books and pamphlets on how Western unions operate, their structure, voting procedures, collective bargaining arrangements, arbi*tration and grievance* procedures and their relationship with the law.

At a more political level, the workers interviewed by the federation official said they wel*comed visits and messages of* support. More particularly, they want Western unions to put pressure on their governments to increase the West's economic support for Poland, in the form of credits and financial and technological aid.

Some said governments should use that as a lever to try to get the Polish Government to honour in full the Gdansk agreement, as well as ensure that the aid reached its intended recipients.

According to the report of an un-named federation official just published, Solidarity has two main problems.

One was that it is trying to take on too much. For the sake of its own credibility it handles all kinds of complaints from individuals seeking redress for historic grievances. Furthermore, says the report, the intellectuals associated with or advising the trade union — including members of KOR, the Committee for Workers' Self-Defence—have a more political motivation.

"Although exercising a moderating influence as far as strikes are concerned and further acknowledging the leadership role of the workers themselves, they see Solidarity as a means of re-ordering Polish society along more open, democratic lines . . . . From a Western trade *union point of* view, Solidarity is being asked to undertake tasks that would not normally be considered trade union work in democratic countries."

The second problem was organisation. Dislike of the management style of the old unions, combined with the presence of many volunteer helpers, was obscuring the need for a proper structure. "Lines of decision are not clear and the ultra-democratic systems currently being rather loosely operated can easily play into the hands of demagogues."

But the author concludes that the regionally organised Solidarity is, in his view, "a genuine, fully representative, independent, democratic organisation of workers." It appears to have about 80 per cent of Poland's workers "adhering" to it, although so far there are no membership cards, only lists, the report says.

"It has membership, income, premises, expert advice, work to do and a tremendous sense of determination if not a completely clear sense of purpose beyond 'getting Solidarity fully organised.'

"The commitment to the Catholic religion is very strong. The hatred of the Soviet Union and bitter contempt for the Polish Communist Party is also clearly evident, though never publicly expressed. Each Solidarity office is incomplete without a union poster or banner, a Polish eagle and a crucifix."

Most of the workers interviewed "condemned the West's obsessive media interest in a possible Soviet invasion," which they considered most unlikely.

The author says he found no evidence of regional jealousies. "There is an impressive commitment to the idea of solidarity —strong groups like steelworkers or miners helping weaker groups such as health service workers.

Solidarity: Report of IMF mission to Poland, December 3-11, 1980. 54 bis Route des Acacias, 1227 Geneva.

Officers' action at 10 prisons continues

THOUSANDS of prison officers yesterday refused to obey their union's directive to suspend industrial action. About 10 prisons were affected, including Hull maximum security jail and Manchester's Strangeways.

The Prison Officer's Association national executive committee agreed to suspend the three-month industrial action and resume normal work from midnight on Saturday, pending a decision on a Home Office offer concerning a meal-breaks payment.

But yesterday the associa*tion and the Home Office were* in a state of confusion. "We have no details at the moment and will not know the full picture until tomorrow," the Home Office said.

Mr. David Evans, assistant general secretary of the association, said he believed that about 10 branches were continuing to work to rule. "The national executive committee is disappointed that certain branches have felt they cannot accept their instruction." The committee would meet next Thursday to decide what action to take.

In Manchester officers are refusing to accept new prisoners and the association's branch there decided not to accept the directive until a special conference is called.

About 120 branches agreed to work normally.

Shipping employers plan tough response

BY PAULINE CLARK, LABOUR STAFF

BRITISH shipping employers are today expected to announce tough retaliatory measures against striking seamen in the face of a call by union leaders for a two-day stoppage this week.

The General Council of British Shipping is considering moves to recommend to its members that they stop the pay of seamen who take strike action.

This follows firm rejection by the National Union of Seamen at the weekend of any deal within the 12 per cent pay offer, which the employers have said is final.

Union branch officials and shop stewards from ports throughout the UK will meet in London today to consider the recommendation from the union's disputes committee of a 48-hour all-out national stoppage by seamen on Wednesday and Thursday.

This action would exclude only passenger lines and supply vessels to North Sea oil rigs.

The union said yesterday that action had stopped 47 deep sea vessels overseas, while 186 were affected by overtime bans. In home ports, 70 ships were said to have been held up with 35 more affected by overtime bans and delayed sailings.

Ford plant rejects 9.5%

WORKERS at the Ford transmissions plant at Halewood, Liverpool, have voted to reject the company's 9.5 per cent pay offer. The vote came on Saturday, after a 50-minute meeting.

The larger workforce in the main assembly plant, where the new Escort is produced, will decide on the offer today. Nearly all the other Ford plants have voted for acceptance.

After Saturday's meeting Mr. John McNally of the Amalgamated Union of Engineering Workers, convenor of the transmission plant, said: "We don't take any notice of what goes on around the country. If we had voted first I am sure it would have been the same decision. This 9.5 per cent is not even a cost of living rise."

Shop stewards had recommended rejection of the offer, as had national executives of the unions involved — the AUEW and the Transport and General Workers' Union.

Halewood has 5,500 workers *laid off because of a dispute in* the assembly plant. The transmission plant is not affected. The lay-offs, effective until tomorrow, follow the company's disciplinary procedures agreed before *Christmas.*

CPSA set for conflict over key officials

By Philip Bassett, Labour Staff

THE LEFT and Right-wing of the Civil and Public Service Association, Britain's largest Civil Service union, are preparing for renewed political in-fighting over a range of appointments to senior union posts.

The appointments in the *220,000-strong union follow the* retirement of Mr. Ken Thomas, its general secretary, due this year under union rules which stipulate that officials have to retire at 55.

Strong lobbying by both wings of the politically divided union has been under way for some time. It is likely to come to a head at the conference in Brighton, since under CPSA rules, appeals by unselected candidates against recommended appointment have to be heard by the full conference.

Mr. Thomas will be succeeded by Mr. Alistair Graham, the present deputy general secretary, who has the nomination of the 26-strong national executive and will be recommended to the conference for appointment.

Mr. Graham was appointed to his present post four years ago as a candidate with Left support, but since then he and the Left have moved well apart.

The attention of both political groups in the union has now been fixed on his present *post and that of general* treasurer.

Three candidates at assistant secretary level have emerged for Mr. Graham's present post. They are Mr. John Ellis (who has responsibility for the Inland Revenue), with Right-wing support; Mr. Peter Thomason (Home Office and Transport); and Miss Diana Warwick (Health and Social Security).

The last two may well split the Left vote at the conference: though Miss Warwick is a more middle-ground candidate, it is possible that she will take the Department of Health and Social Security section *with her.*

The union's 11-strong selection committee, appointed by the predominantly Right-wing national executive, considered the candidates last week and voted: Ellis 10, Warwick 1, Thomason nil. Mr. Ellis will be recommended to the executive next month.

There are a further three candidates for the other post: Mr. John Raywood, senior Post Office group secretary, who has Right-wing support; and two assistant secretaries, Mrs. Jean Thomason (Trade and Industry), and Mr. Terry Ainsworth (Employment). Mr. Ainsworth would probably draw the Left vote.

The selection committee's voting for this post was more divided: Raywood 7, Thomason 4 and Ainsworth nil. Mr. Raywood has already been proposed.

Mr. Ainsworth has given notice of appeal.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	Caravan, Camping and Leisure Exhibition (04866 6556) (until Jan. 25)	Bingley Hall, Birmingham
Jan. 20-22	Hirex Exhibition (92 27211)	Wembley Conference Centre
Jan. 25-29	*International Light Show* (024888 396)	Olympia
Jan. 27-29	Electronic Business Equipment Exhibition BIZTRONIC (061-928 0406)	Edgbaston Cricket Ground
Jan. 28-31	Business to Business Exhibition (0202 20327)	Met. Exhb. Hall, Brighton
Jan. 31-Feb. 4	British Toy and Hobby Fair (01-707 7127)	Earls Court
Feb. 1-5	International Spring Fair (01-499 7324)	NEC, Birmingham
Feb. 10-13	*International Business Computing, Word Processing* and Information Management Exhibition (01-647 1001)	Cunard Int. Hotel
Feb. 14-22	Birmingham Post/Evening Mail Boat and Caravan Show (021 236 3366)	NEC, Birmingham
Feb. 15-18	International Men's and Boy's Wear Exhibition (021 705 6707)	Olympia
Feb. 18-19	Marketing Services Exhibition (01-680 7525)	West Centre Hotel, London
Feb. 22-24	Cycle Trade Exhibition (01-837 3636)	Ingliston Showgrd., Edinburgh
Feb. 22-26	Gifts Fair (0277 230501)	Metropole Exb. Hall, Brighton

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Current	Middle East Construction Exhibition (01-935 8200) (until Jan. 21)	Jeddah
Current	Irish Gift Trade Fair (Dublin 681355) (until Jan. 21)	Dublin
Jan. 23-29	International Record and Music Publishing Market MIDEM (01-499 2317)	Cannes
Jan. 23-Feb. 1	International Green Week (01-540 1101)	Berne
Jan. 23-25	International Boat Show (01-486 1951)	Malmo
Feb. 2-5	MECOM '81—2nd Middle East Electronic Communications Show and Conference (021 454 4416)	Bahrain
Feb. 6-9	International Stationery Exhibition (01-439 3964)	Paris
Feb. 8-10	Scandinavian Menswear Fair (01-540 1101)	Copenhagen
Feb. 11-14	International Trade Fair for Household Appliances Fittings and Components—DOMOTECHNICA (01-409 0956)	Cologne

BUSINESS AND MANAGEMENT CONFERENCES

Jan. 19-20	Robert S. First Inc.: New Concepts in drug and nutrition delivery systems (Telex 22859)	The Drake Hotel, Chicago
Jan. 20	IPS: Purchase Cost Reduction (0990 23711)	Connaught Rooms, WC2
Jan. 21	ESC: Making Financial savings through energy control (057282 2711)	Gloucester Hotel, SW7
Jan. 21	OSC: The Middle East—The Changing Market of the Gulf Region (01-439 9021)	St. James's Street, SW1
Jan. 21-22	FT Conference: India as a World Trading Partner (01-621 1355)	New Delhi
Jan. 21-22	FT Conference: The Euromarkets in 1981 (01-621 1355)	*Inter-Continental Hotel,* W1
Jan. 22-23	AMR International: Executive Project Management —The critical skills (01-262 2732)	Kensington Hilton Hotel
Jan. 26-27	AMD: Communication and confidence development for managers (07535 56047)	Runnymede Hotel, Egham
Jan. 26-28	Building Business Unit: Microcomputer Workshop *for the Construction Industry — Surveyors* (01-353 2300)	Slough
Jan. 27	Institute for Fiscal Studies: Taxation of the Family (01-828 7545)	Royal Institution, W1
Jan. 27	European Study Conferences: Direct investment in oil and gas related tax matters (01-727 5120)	Cumberland Hotel, W1
Jan. 27	CCC: *Financial problems in divorce—A seminar* for accountants and tax advisers (01-222 6362)	Europa Hotel, W1
Jan. 28	CCC: Stock Relief—The new proposals (01-222 6362)	Inter-Continental Hotel, W1
Jan. 29	The Economist: China's needs today—Foreign investment and joint ventures (01-839 7000)	Café Royal, W1
Jan. 30	Ron Clements Associates: Transactional analysis in organisations (Byfleet 43301)	Basil Hotel, SW3
Feb. 2-4	MSS: Managing Computer Staff (0903 34755)	Worthing
Feb. 3-4	Crown Eagle Communications: Law at work—recent legislation and case law (01-636 0617)	Churchill Hotel, W1
Feb. 5	The Institution of Civil Engineers: Symposium on sensors in highway and civil engineering (01-222 7722)	Westminster
Feb. 5	IPS: Automotive Industry (0990 23711)	Hilton Hotel, Stratford
Feb. 5-6	AMD: Product Innovation and Development (07535 56047)	New Berners Hotel, W1
Feb. 9-13	London Graduate School of Business Studies: Service industry marketing programme (01-262 5050)	Regents Park, NW1
Feb. 10	BIM: *Computer* programming for managers (01-405 3456)	Parker Street, WC2

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Technical Page

EDITED BY ARTHUR BENNETT AND ALAN CANE

IBM's new move in office integration

WHERE DOES the electronic typewriter stop and the word processor begin? The convergence of the two has been pointed up even more sharply by IBM's announcement of its Electronic Typewriter 75, a machine with yet more storage and text editing ability, a high level of typing facilities and a price tag of £1,470 ex VAT.

Offered by the company's General Business Group at *Basingstoke, Hants* (0256 56144), this microprocessor-driven machine has a self-contained 7,500 character memory, equivalent to about five average single-page letters—and the option is offered of adding a further 8,000 characters.

The electronic memory allows documents and phrases to be stored in a number of formats so long as the machine is connected to the mains (the memory is volatile). Any of the 26 alphabetic keys can be used to identify items in storage; thus, the depression of one key enables a sentence or paragraph to be inserted as needed in the text.

Words, phrases, sentences or *a complete letter can be kept* in up to 99 storage slots in the machine's memory. By using various combinations of phrase and document storage, information can be merged to produce a personalised letter or other document. It is also possible to store formats and layouts, making the completion of things like forms and grids a much simpler task.

Optionally, a battery backup system can be provided so that memory remains intact when the mains is switched off.

Storage handling for the typist is not complicated: a panel of five keys initiates store *or retrieve functions and allows* the operator to move to points of change, to review copy, make corrections and play out the final, error free text. Machine status is shown by panel lights.

The ribbon on the new machine has a life of 210,000 characters—up to 40 per cent more than current IBM ribbons—and the lift off tape (a second ribbon that lifts characters off the paper) is now 6,800 characters, some 2¼ times greater than the current types.

To make life easier for the typist, IBM has incorporated both the typing ribbon and the correcting tape cassettes in a single, more easily handled cartridge. A used cassette can be removed and a new one snapped into place quickly with no manual threading or winding.

First customer shipments of the model 75 will take place in April.

Geoffrey Charlish

NEWS IN BRIEF

MICROCIRCUITS

ENGINEERS WISHING to *evaluate Ferranti analogue to* digital convertor circuits can buy a kit of 12 A to D and D to A circuits complete with relevant data from Celdis of Reading (0734 582211).

The circuits are contained in a book-like folder and the price of the kit is £28.

COMPUTING

LARGE AND complex corporate financial *modelling applications* can be run on the CMS (computer modelling system) which makes use of a Data General MicroNova machine and has been introduced by Computer Modelling of 63 Roman Road, London, E2 0PQ (01-980 3329).

According to the company's managing director Paul Basson, too much time is spent by managers in industry and commerce in producing the information and too little time evaluating it. His company has a hardware/software system that will "enable management to record and manipulate data and produce reports, graphical outputs and sophisticated models easily and quickly."

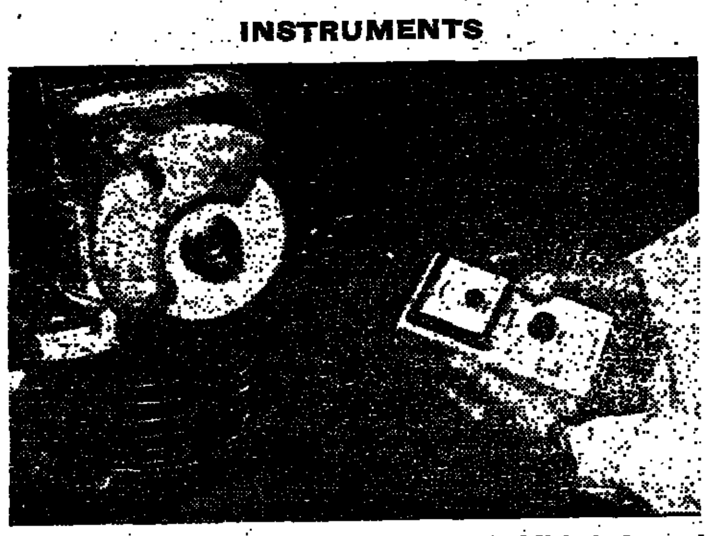
Basson asserts that many companies are using expensive time sharing facilities at bureaux and are spending over £10,000 a year for the service. He says: "For a £16,000 one-off cost they could do the job in-house and save time too."

FURNACES

ELECTRIC heat treatment furnaces with programmable temperature controls are now being produced by Ramsell-Naber, 22 Brookvale Trading Estate, Moor Lane, Birmingham B6 7AQ (021-356 8441).

They are available in eight standard sizes from 250 by 350 by 148 mm high up to 1,000 by 1,300 by 500 mm high. Temperature ranges are up to 1,280 degrees C.

INSTRUMENTS



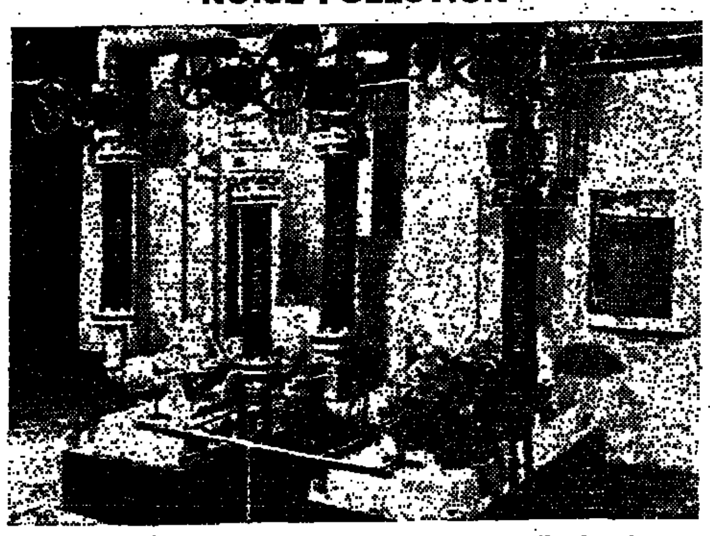
AN OPTICAL tachometer for measuring the speed of rotation of grinding wheels, presses and the like has been introduced by TI Dieseltune, a part of TI Transport Equipment.

The new device operates by projecting a beam of light at the moving part, to which is attached a piece of reflective tape.

The reflected light is detected by the device and converted into speed of rotation.

The Dieseltune 203 can be operated up to 50 centimetres away from the moving part and at an angle of up to 45 degrees from the perpendicular. It measures speeds from zero to 25,000 revolutions a minute and costs £164. More on Daventry 4461.

NOISE POLLUTION



SOUND RECORDING studios need both air conditioning and silence. Unfortunately, the two are frequently incompatible because of the strange resonances set up within the kind of pipeworks necessary for air conditioning. This was the problem faced recently by a major studio which installed a new air conditioning system.

The answer was Posiflex Soundzorbers, lengths of rubber decouplers which were inserted into the pipeworks and which, in a way not fully understood, reduced the noise level, often by as much as 25 to 30 decibels.

Soundzorbers were invented by the General Rubber Corporation in the U.S. and are manufactured under licence here by Posiflex Limited.

Mr. Derek Greenwood of Posiflex says the decouplers should prove effective in any industry where excessive pipeworks are involved—the heating and ventilation industries, for example, and brewing, food and processing.

The couplings are much more than simple tubes of rubber inserted between lengths of pipe; they have helical springs in the bore and plastic strengthening. Posiflex is carrying out research with the British Hydraulic Research Association to discover the pitch of the helical springs necessary to give a given reduction in decibels at a given frequency.

The Soundzorbers cost anything from £76 for 1.5 inch bore to £413 for 12 inch bore; the set of four Soundzorbers illustrated cost about £2,000 for example.

More from Posiflex on 040381 4343.

Gambling with software for high stakes

BY ALAN CANE

LAUNCHING A new company to market an advanced product that has already cost over £2.5m in research and development funds without showing a penny profit might seem a desperate gamble these days.

Nevertheless, this is the course to be taken by Computer Analysts and Programmers, one of the UK's biggest and most prestigious software houses—subject, of course, to the approval of its shareholders.

The company has decided to split off the arm of its business dealing with microproducts—the software, or lists of instructions, which enables microcomputers to do useful work.

The new company, which will probably be called MicroProducts Ltd., will be run by Mr. Alex d'Agapeyeff, chairman *and guiding* spirit of the CAP group.

MicroCobol

The group which has cost so much money and effort, and on which the new company is pinning so many of its hopes, is called MicroCobol—it is a microcomputer language, a development language and an operating system. Its great virtue, in CAP's eyes, is its claimed portability—computer *programs written in Micro-*Cobol are said to run on *any* microcomputer using the MicroCobol environment.

The group now has some 70 distributors for MicroCobol; according to Mr. d'Agapeyeff, revenues from the product in the current year will be £500,000.

But MicroCobol has yet to take money. And the development costs over the past four years have hit CAP's profits badly at a time when other sectors of its business were also feeling the pinch.

In 1978, CAP turned over £9m and made a trading profit of £1.2m. £218,728 was written off against microproduct development. In 1979, turnover was £11.2m; £363,103 invested in microproducts contributed to an £18,885 loss before tax. Last year, turnover was £13m; microproducts expenditure of £529,371 written off helped to pull pretax profits down from £1.2m to £650,848

If MicroProducts is successful, the prize will be a world standard in microcomputer software, and the company's fortune will be made. If it fails—and it has about 12 months to the make or break point—it will mean the end of a dream that has sustained Mr. d'Agapeyeff for six years or more.

What is happening to CAP is in some ways symptomatic of the way *the UK software indus*try is going. CAP is owned by its senior staff, Charterhouse and the National Enterprise Board in the ratio 55:15:30. The new company will be owned by the same shareholders in *roughly* the same proportion. CAP was originally the "Saville Row" of British software, creating bespoke software to solve its clients' problems.

With special interests in banking and the financial community, that sector has always made money. According to Mr. Barney Gibbens, the present deputy chairman of CAP who moves to chairman of the new, leaner CAP group, turnover should be around £14-£15m in April 1982 with pretax profits around the £1m mark—assuming that economic conditions do not get significantly worse.

Terry Kirk

Alex d'Agapeyeff (left) and Barney Gibbens in a machine room full of microcomputers at CAP's headquarters.

CAP has already sold off its packaged systems software arm CPP, which went to the U.S.-based software house Computer Associates on January 1.

CPP used to sell U.S. built packages from the American companies Boole and Babbage and ADR, but these licences were largely revoked in 1979.

CAP had its own "Improve" range of products to replace the U.S. packages, but acceptance of new systems software takes time, and losses in the first six months of last year were heavy.

What makes the *reorganisation* remarkable is the position CAP held, and still holds, in the computer world. It is reckoned to produce work of superb quality—and to charge appropriately. Mr. D'Agapeyeff himself is one of the few real visionaries in an industry largely populated by bits and bytes specialists.

Funding

What are the chances for the new company? There is general agreement that Micro-Cobol is a good (but not uniquely good) product: one user said: "It is extremely good. It is possible to write massive amounts of material in a very short time."

And there is no doubt of the value of the market; the programming of microcomputers remains the single biggest obstacle to the rapid development of information technology.

It is certainly true that CAP sadly misjudged the speed with *which microcomputers would* come on the market at reasonable prices; its own marketing of MicroCobol has drawn criticism.

Now there is a plethora of cheap computers—the machine room at CAP's Lambs Conduit Street, London offices is full of them. And orders are starting to pick up. It is understood that MicroProducts is now breaking even. CAP says that over the next few months, a series of application products in MicroCobol will be announced for estate agents, insurance companies, accountants and *general practitioners*: those professions, in fact, which could be expected to make early use of the new cheap, computing power given adequate software.

MicroProducts will start with a clean balance sheet, the *development costs on Micro-*Cobol so far having been written off by CAP. Its initial minimum funding is £300,000 (exclusive of revenues) which will be raised when Mr. d'Agapeyeff and those other CAP shareholders moving to the new company sell their CAP shares. The list includes Mr. Christopher Hawkins who will become general manager of the new company, and Mr. Esmond Hart, CAP's chief software designer and the brains behind Micro-Cobol.

Mr. d'Agapeyeff expects to be able to raise further funds from the City—software seeming to be an uncharacteristically attractive proposition in financial circles now—and he is still hoping for large injections of capital from government to support the UK effort in information technology.

Building and Civil Engineering

Jetfoil terminal at Dover

WORK IS due to start soon at Dover Harbour on a Jetfoil terminal which will be part of a new rapid transit ferry service between the UK port and Ostend. In both these harbours, regular railway services are available very close to the terminals to connect passengers with a much larger transport system.

The new Jetfoil service will be operated by the Belgian Maritime Transport Authority (a Belgian State enterprise) jointly with her pool partner, British Railways Board (Sealink UK) under the Sealink banner.

The Belgian Authority has commissioned London consulting engineer, Rendel Palmer and Tritton, for the planning and design of the terminal.

At Dover, the terminal will be constructed at the Admiralty Pier adjacent to the Marine Station and because this part of the Western Harbour is subject to wave attack during easterly storms, a new breakwater will be provided.

The consulting engineers have supervised several model studies in Canada and the UK to establish Jetfoil manoeuvres, the breakwater designs and terminal layouts. These tests culminated in a final design comprising a sheet pile cofferdam breakwater with precast concrete armour units on the seaward face, a dredged entrance, manoeuvring basin, and a floating terminal building for the transfer of passengers and baggage.

The floating terminal building will be permanently moored behind the breakwater in the protected area where the Jetfoils can manoeuvre and berth in safety.

Dover Harbour Board has been closely involved with the project and will be supervising the construction of the terminal.

Contracts for Wimpey

WIMPEY International has won a contract valued at about £7.9m from P. H. B. Wesserhutte A.G. main contractor to the Jordan Ports Corporation, for civil works at the Aqaba Potash terminal.

The contract covers the design and construction of the civil works for the potash handling and storage terminal.

In Venezuela, Constructora Wimpey-Dushi C.A. has been awarded a contract valued at £1.6m for the design and construction of apartment blocks in Caracas.

This project is for Inversiones Dushi C.A. a property development arm of a large insurance and banking group in Venezuela. Named the Punto Fijo Development, it will include three ten storey "no fines" construction apartment block together with associated commercial units, roads and services.

In the UK, Wimpey has won a contract worth about £2m for a supermarket complex for J. Sainsbury at Braintree, Essex, and the London Borough of Greenwich has awarded a £1.3m contract for roadworks.

Awards to Mowlem Group

MORE THAN £2m worth of new work in Avon has been awarded to Ernest Ireland Construction, part of the Mowlem Group.

At Bristol, Grosvenor Estate Commercial Developments has awarded the company a £1.2m contract to build a three-storey office block on the inner circuit road at the junction with Redcliff Street. Designed by Sir John Burnet, Tait Powell and Partners, the building will have 30,600 sq ft of lettable space.

At Yate, north of Bristol, Ernest Ireland is today starting a £320,000 civil engineering contract to improve road access at the new shopping development for Tesco while at Bathford, specialist paper producer Portals (Bathford) has awarded the company a £110,000 design and construct contract to build a new workshop extension and gatehouse.

In North London about 2.15 km of surface water sewer, to reduce the chance of flooding, is to be constructed by John Mowlem for the London Borough of Haringey.

Aim of this task is to improve the capacity of the existing surface water drainage system, and it will run from the Wood Green Shopping City to the Lordship Recreation Ground, Walpole Road, Tottenham, where it will join the existing system.

Industrial project to cost £11m

A VARIETY of factory and warehouse units are to be built on an 11.3 acre site in Albert Drive, Woking, Surrey.

This is to be an £11m development of about 230,000 sq ft and follows joint acquisition of the site by Balfour Beatty and Second London Wall at a cost of over £3m.

Present factory buildings are being demolished, except for a single-storey warehouse of some 32,000 sq ft which will be refurbished and offered for letting.

The site acquisition has been funded by the Post Office Staff Superannuation Fund, represented by Bernard Thorpe and Partners, and it is stated that the Fund has agreed to purchase the completed investment.

Sewer and sea outfall

A NEW trunk sewer and a sea outfall is to be constructed on Das Island for Abu Dhabi Marine Operating Company (ADMA-OPCO) under two contracts awarded to Boskalis Westminster Middle East a subsidiary of Royal Boskalis Westminster NV of the Netherlands.

Work has begun on both projects, which have a combined value of about £2m.

More work for Tilbury

NEW PROJECTS, including three contracts each worth over £1m, are announced by the Tilbury Group whose Tilbury Roadstone will carry out blacktop work on the A120 Colchester Eastern By-pass under a £1.2m sub-contract placed by Costain Civil Engineering.

Elsewhere, the company is undertaking major road works for Kent County Council and will provide improvements to the A228 at Chattenden, between Wainscott and Hoo. This £1.16m award calls for 1,700 metres of 7.3 metres width dual carriageways, priority junction improvement, turning facilities and a slip road.

Anglia Water Authority has awarded a £1m-plus contract for the construction of a 4m gallon reinforced concrete reservoir and associated works at Rushmere Heath, Ipswich, and Thames Water Authority a £285,000 contract for additions to Fleet Sewage Treatment Works in Hampshire.

£3m worth to Bovis

TWO contracts together worth £3.1m have been awarded to Bovis Construction by the Boots Company.

At Wood Green Shopping City, north London, Bovis will fit out the basement and two sales floors of Boots' new store, under a contract valued at £1.7m. Work will also include the installation of two escalators and construction of staircases.

The other contract is at Newcastle-under-Lyme, Staffs, and is for upgrading and extending Boots' existing store.

Work will include extensions to the basement, ground, and first floor, as well as the upgrading of the existing ground floor sales area.

£16½m City office block

CONSTRUCTION of an 8-storey office block in Bevis Marks, City of London, is to be started soon by Sir Robert McAlpine and Sons. Value of the contract is £16½m.

The L-shaped structure (measuring 40 metres by 55 metres on plan) is being built for Haslemere Estates and will offer 13,600 square metres of air-conditioned and centrally heated floor space. It will be served by six passenger lifts.

Some 12,000 cubic metres of excavation on the confined ½-acre site will precede underpinning and piling. The cores of the building will be erected by the slipform method of concreting. Completion is due in late 1983.

Architects are Lister Drew and Associates, quantity surveyors are Clore Norton and Partners and the consulting engineers are Brian Griffiths and Associates.

For light industries

TROLLOPE & Colls has been awarded a £4m contract for an industrial development in Abbey Road, North London, for the Commercial Union Assurance Company.

The project calls for 28 single storey units each containing a two-storey office element. About 190,000 sq ft of space will be provided for light industrial use or warehousing.

The buildings, varying in size, will be constructed with precast concrete columns, steel roof trusses and traditional cladding. Front elevation of each unit will be finished in brickwork.

Work has already begun and completion is scheduled for the middle of 1982. Architects are Geoffrey Reid Associates.

Trollope & Colls is a member of the U.K. Building Division of the Trafalgar House Group.

Conversion by Wiltshiers

AN UNUSUAL and complex development has been entrusted to Wiltshiers.

The company is to develop numbers 55 to 58 Pall Mall, London SW1 into six storey office accommodation with a self-contained flat located above and, at pavement level, access will be gained to several shop units from Crown Passage, a small shopping arcade running alongside the main building.

The elevation of the existing building facing on to the historic thoroughfare is to be retained, with the structure behind being demolished and replaced under a project with a value of £3.5m.

Another old building, 18 Cavendish Square—originally completed in 1759—is to undergo extensive refurbishment under a contract worth just under £1m awarded by Capital and Counties Property Co.

£1½m work at refinery

A MAJOR refurbishment contract at Texaco's Pembroke refinery has been awarded to the UK Construction and Engineering Company, part of the WGI group, by Snamprogetti main contractor to Pembroke Cracking Company, a partnership of Texaco and Gulf Oil (Great Britain).

Worth in the region of £1.5m the contract involves stripping out all redundant pipework at Texaco's No. 3 jetty followed by the fabrication and erection of new pipework, together with all electrical and instrumentation work.

Work has already started on the fabrication of pipework for the contract which is scheduled for completion in June.

Long distance travel

THE Netherlands Ministry of Transport and Public Works has appointed Martin and Voorhees Associates to undertake a £½m study of long distance travel.

First phase of the study is due to be completed by June and is designed to obtain an improved understanding of this particular market. Second phase will take a further 18 months and concerns the development of a forecasting model to be used in the evaluation of proposals for the construction of a new rail line, the Zuyder Zee line, linking Amsterdam with Groningen over the Ijsselmeer polders.

Working in joint venture with Wallace Evans and Partners, the consultants have also been appointed by the Cyprus Ministry of Communications and Works to undertake a series of highway studies. These are being funded by the World Bank and British Ministry of Defence and will cost about £½m.

£20m Africa road awards

TWO BIG road contracts in Africa, valued at £20m have been won by Kier International.

In Kenya, under a £15.6m award, the company is to construct in three years 55 km of road between Thuchi and Nkubu on the eastern slopes of Mt. Kenya. Ten bridges will be needed.

The other contract, worth £4.4m, is for the construction of 25 km of road between Joels Drift and Khamane in the foothills of the Drakensberg Mountains of northern Lesotho. This job will take 16 months.

Five jobs for Jarvis

ALL FOUR offices of Jarvis are involved in five new contract awards worth £3.15m.

In the south the company is upgrading the old south block of the Queen Alexandria Hospital, Cosham, Portsmouth for the Wessex Regional Health Authority while in London, Pembroke House, 40 City Road, EC1 is being modernised and fitted-out for Ultramar Golden Eagle. In Station Approach, Cheam, Surrey, Jarvis is building a three-storey office block, designed by Paton Orr and Partners, for Hanover St. George Investments.

In Newcastle upon Tyne Jarvis is converting an ancillary building to the turbine hall of the former tram system into workshops and offices for the new Metro and in Manchester, four warehouses are being built on the Dane Road Industrial Estate, Sale, for MEPC.

Hotel work in Egypt

BERNARD Sunley & Sons' associated company in Egypt, Arab Sunley Construction Company, has signed a contract with the Arab International Company for Hotels and Tourism for the construction of an annexe to the Ramses Hilton Hotel, Cairo. The value is US$9m and work is to start immediately.

The annexe will be 10-storeys in reinforced concrete with car parking, shops and offices.

Port study in Liberia

THE National Port Auth... of Liberia has appointed S... liam Halcrow and Partners to carry out a study of its ports and look at the possibility of establishing new ones.

The study, financed by the European Development Fund, will cover economic and engineering investigations as well as trade, industry, agriculture and land transport. Halcrow will advise on the course of development over the next 20 years.

IN BRIEF

- Development of offices, shops and a public house in the centre of Aylesbury, Buckinghamshire is to be carried out by Walter Lawrence for Laing Properties. Work has started and value of the contract is over £3m.

COMPANY NOTICES

COMPAGNIE NATIONALE AIR FRANCE

French public establishment liable to the civilian air transport code and with registered Office in Paris
1 Square Max Hymans

LOAN OF US$25,000,000
9½% BONDS 1975/1982

unconditionally guaranteed by the French State

Bondholders are hereby informed that amortisation due on February 18, 1981, for which an amount of US$8,000,000 is planned, has been effected by a draw by lot.

Following this draw which took place on January 9, 1981 in the presence of Madame Jeanne HOUSSE, huissier de Justice at Luxembourg, the 8,000 bonds of US$1,000 bearing numbers:

12103 to 21948

inclusive will be redeemable at par, coupon at February 18, 1982, and subsequents attached, as from February 18, 1981, date as which they will cease to bear interest.

The following banks will carry out the redemption of the said bonds and the payment of interests due on February 18, 1981:

CREDIT LYONNAIS, Luxembourg—BANQUE BRUXELLES LAMBERT SA, Brussels—COMMERZBANK AG, Frankfurt am Main—SOCIETE GENERALE, Paris—FIRST NATIONAL CITY BANK, London—FIRST NATIONAL CITY BANK, New York.

It is recalled that the following bonds previously drawn by lots, have not yet been presented for repayment:

February 18, 1977: Nos. 8486 to 8410;

February 18, 1979: Nos. 4940 to 5024, 5225 to 5239, 6091 to 6094, 6098 to 6100, 6182 to 6231, 6245 to 6248, 6358 to 6360, 7103, 7404, 7254 to 7258, 7412 to 7441, 7647 to 7651, 7684 to 7685, 7762 to 7771, 7935 to 7938, 7989 to 7994;

February 18, 1980: Nos. 9222 to 9236, 9898 to 9902, 10500 - 10504, 10960 to 10966, 10981 to 10996.

Amount remaining in circulation after this 5th instalment: US$8,000,000.

The Fiscal Agent.
CREDIT LYONNAIS—Luxembourg

BRASILVEST S.A.
SOCIEDADE DE INVESTIMENTO
D.L. 1401

INTERNATIONAL DEPOSITARY RECEIPTS
issued by
MORGAN GUARANTY TRUST CY OF NEW YORK

NOTICE IS HEREBY GIVEN that the report and accounts of the captioned company, for the period ending September 30, 1980 are available to the stockholders at the offices of Morgan Guaranty Trust Cy of New York in:

Brussels, 35 avenue des Arts
New York, 30, West Broadway, New York, NY 10015
London, 1 Angel Court, London EC3
Zurich, 38, Stockerstrasse CH 8022.

MAKITA ELECTRIC WORKS, LTD.
(CDRs)

The Board of Directors of Makita Electric Works, Ltd. has announced that shareholders, who will be registered in the books of the Company on February 20th, 1981 will be entitled to receive a 10% gratis distribution of new shares. Consequently, the undersigned designated div. cp no. 23 of the CDRs for this purpose.

In Japan the shares will be traded ex-bonus as from 17th February, 1980.

Amsterdam.
January 12th, 1981.

AMSTERDAM DEPOSITARY COMPANY N.V.

NOTICE OF PURCHASE
EUROPEAN INVESTMENT BANK

US$80,000,000 11¼% BONDS OF 1980 DUE 15TH JANUARY, 1992

Pursuant to the terms and conditions of the Loan, notice is hereby given to Bondholders that, during the eleven-month period ending 14th January, 1981, US$6,400,000 principal amount of such Bonds were purchased by the purchase agent in satisfaction of the concerned purchase fund obligation.

Outstanding on 15th January, 1981: US$73,600,000 principal amount.

EUROPEAN INVESTMENT BANK
Dated: 19th January, 1981.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Keeping one step ahead in the computer game

Guy de Jonquieres on one of the first companies to exploit viewdata's potential

"FIVE YEARS ago, this company was little more than a bench and a couple of desks over there," says Michael Aldrich, leaning back in his chair and gesturing out of his office window towards an adjacent building. Today, it employs 600 people and has an annual turnover of £14.5m.

Aldrich is managing director of Redifon Computers, a subsidiary of the Rediffusion group, which also has interests in broadcasting, television manufacture and rental, and in-flight simulation equipment. Somewhat grandly, Redifon styles itself as "the second largest British-owned computer manufacturer" after ICL (1980 turnover £715.8m).

That is a claim which might be contested by some of its competitors such as Ferranti and the General Electric Company (GEC). Moreover, Redifon's rapid growth has been based until recently on its specialisation in a fairly narrow section of the computer market, mainly the design and manufacture of so-called "key-to-disc" systems used to enter instructions and other information into computers.

The company is generally estimated to be the largest independent supplier of these devices in the UK, with between 600 and 800 systems installed. The business flourished as computer users turned to the systems in place of older and slower punched card machines, whose basic design had been outdated by electronic technology.

But being mainly a replacement market, its growth potential was limited. When Aldrich was hired away from Burroughs, the big U.S.-owned computer manufacturer, in early 1977, to become managing director of Redifon, it was clear that sales of the company's traditional product were already close to peaking out and that it must strike out into new markets.

Redifon's development until then had owed a good deal to a sequence of fortunate accidents. The company got its start in the late 1960s after Rediffusion's flight simulation equipment subsidiary had developed its first digital computer and was struck by the idea that it could be used in other applications.

"Someone said: Why not go into commercial data-processing? But the Board wasn't too keen on the idea," Aldrich recalls. "It was about that time that a number of big companies like General Electric in the U.S. were getting out of the general purpose computer business because they had been unable to make a go of it."

What helped change the Board's mind was a Government tender for terminals for the planned Driver and Vehicle Licensing Centre in Swansea. Redifon won an order to supply a huge 400-terminal system. Aldrich insists that, unlike other parts of the much-criticised Swansea complex, Redifon's *equipment functioned smoothly from the outset.*

Michael Aldrich: "We painted a picture of what we wanted the company to be. It was real blue sky stuff"

It soon became clear that there was a much bigger market for smaller data-entry machines. To develop the right product, Redifon teamed up with a small American company, Entrex. The result was "Seecheck," developed in the early 1970s, whose sales have provided the basis for much of the company's subsequent growth.

Soon after Aldrich took the reins at Redifon, he set about defining a fresh business strategy that would guide its development until well into the 1980s. "In March 1977 we sat down and painted a picture of what we wanted the company to be. It was real blue-sky stuff, and we weren't at all sure at the time that what we wanted to do was right."

What emerged from the brainstorming was a decision to enter the office information and communications systems business, then starting to be recognised as a major growth market of the future. It was a bold move, for several reasons.

Barrier

Redifon had only limited experience of the office automation business and lacked the skilled technical staff needed to develop a new product range. It was also entering a highly competitive field in which it would have to battle for survival against a regiment of giants, led by International Business Machines (IBM).

But Aldrich reasoned that the company could build on the expertise and the customer base which it had acquired as a supplier of specialised computer terminals. "We thought, what if we added other functions to our machines, like word processing, data processing and communications, and designed them so that they could be used by ordinary people without special training?"

Looking around at the types of terminals then available from other manufacturers, Aldrich concluded that they were all too complicated to be used by unskilled staff. "They really presented more of a barrier to use than an encouragement." So, after recruiting a number of young computer engineers, the company set about designing an easy-to-use system.

In 1978, it made a sale which suggested that it was moving in the right direction—a £3m order from British Rail for a pilot system to automate payrolls and accounting. One of its features was an electronic scanner able to "read" printed figures and transfer them directly to a computer memory.

But meanwhile, technology took an unexpected turn in the shape of viewdata, pioneered by the Post Office and the basis of its Prestel public information service. "At first we were puzzled by it," says Aldrich, because he doubted whether Prestel would appeal to a big market. "It took some time for the penny to drop. Then we realised that viewdata need have nothing to do with Prestel. It was a communications medium in its own right."

Though the computer industry is still split over its commercial application, viewdata offers a number of potential advantages. One is that it is exceptionally easy to use. By following step-by-step instructions spelt out in plain English on a display screen, even a child can feed in and retrieve information stored in a central computer.

It is versatile and can be used to send messages between terminals as well as to perform computations. It is also relatively inexpensive. A modified television receiver equipped with a keyboard can serve as a terminal and can transmit across ordinary telephone lines instead of requiring costly leased circuits used for conventional computer systems.

In 1979, Redifon launched a crash programme to develop its own viewdata-based information system. A few months later it was ready to test a prototype. Still not certain about public reaction, it chose a site as far away as possible—an exhibition in New Orleans.

The Americans were surprised, but impressed, and Redifon decided to take the *plunge into full production. In* the past year it has launched three business information systems costing from £30,000 to £100,000. As well as being among the first on the market to embody viewdata, they offer a number of other novel features. One is a facility for entering data into the computer by ticking spaces on a printed form clamped to a pressure-sensitive pad.

The initial response has been encouraging. Aldrich says that orders so far total more than £3m. A number are for pilot schemes which, if they prove satisfactory, could generate substantial further sales.

The Thomson travel organisation has ordered a system to link agencies in ten towns to a large IBM computer.

For various reasons, notably sensitivity about employees and competitors, many of Redifon's customers wish to remain anonymous. One, a British bank, is experimenting with viewdata in staff training. Instead of housing staff in training colleges at considerable expense, it plans to install viewdata terminals in branches so that employees can take programmed learning courses while on the job.

A retailing firm is examining the possibility of setting up high street viewdata centres, from which shoppers can send orders to a central warehouse. And a large electronics company, which has been struggling unsuccessfully to develop its own viewdata business system, has decided to order one from Redifon for its headquarters.

Redifon owes a good part of its success to being one of the first companies to perceive and exploit the commercial applications of viewdata. But competition is now starting to heat up, with more than half-a-dozen major companies including GEC, ICL and Honeywell offering rival systems in Britain.

Aldrich is confident that Redifon can continue to innovate fast enough to hold its own. Many of its computer engineers are still in their twenties and, he says, "Almost every week they generate two or three new ideas that are really marketable."

The company clearly enjoys the confidence and support of the Rediffusion group. Though Aldrich says that Redifon, whose financial results are not published separately, has always operated at a profit, it has received a good deal of backing from its parent. This includes investments of almost £8m over the past decade.

Rediffusion also recently acquired CMC Europe, a distributor of electronics equipment with a 1980 turnover of about £24m, which will significantly expand Redifon's marketing and service network on the Continent. The group is also believed to be considering further, similar acquisitions in the U.S.

Aldrich expects Redifon's activities to complement increasingly those of its parent in the years ahead. Rediffusion is involved in designing and developing terminals for the business viewdata systems, and its substantial interests in video, including cable television, as well as set manufacture and rentals, seem to offer a good deal of scope for further collaboration. "But it is still too early to say exactly where the lines will converge," says Aldrich.

He is wary about giving any forecasts for Redifon's own growth in the next few years. But with characteristic ebullience he adds: "Right now, we are the same size that Racal was in 1971. Just look what happened to them."

A short(ish) cut through the current cost maze

ALL OVER Britain, company accountants are now struggling with the task of producing their first batch of current cost accounts. Although the majority of large companies has already voluntarily published at least one current cost supplementary statement this year, for the first time, companies have to comply with a standard practice, set out in the statement known as "SSAP 16." Most of the small companies which make up the numerical bulk of the listed category have not yet published any CCA figures at all (though no doubt many will have carried out in-house exercises).

This makes the CCA Conversion Kit, produced by Deloitte Haskins and Sells and just published by Tolley*, a timely arrival. A second printing is being ordered, with most of the first run of 1,000 already sold. This is apart from the 3,000-odd copies taken by Deloitte for internal use and for distribution to clients.

The concept is that a form is supplied — complete with detailed worked examples—to cover each stage of the conversion process. In the first part of the kit, eight chapters deal with standard treatments—beginning with plant and machinery, and progressing through other areas like monetary working capital to the final production of the p and l account, balance sheet and notes. For an entirely straightforward company, the user will get this far after filling in 18 forms.

But many companies are not straightforward, so there is a second section to the kit in which are grouped special treatments that individually are likely to affect only a small proportion of companies. An example of this occurs when the cost of sales adjustment has to be calculated in respect of contract work in progress: or when the gearing adjustment is complicated by an unusual capital structure. The second section has four chapters and some 27 additional forms.

Although other practical guides to CCA exist—one called "CCA the easy way" is published by the Institute of Chartered Accountants—the Deloitte/Tolley kit is ambitious in being aimed at large- and medium-sized companies, with all their *complexities (though smaller* companies could use the earlier chapters of it).

Interestingly, it has emerged from the management consultancy section of Deloitte rather than the auditing side. So instead of the textbook which an auditor might have produced, the guide takes the form of a looseleaf folder containing instruction sheets and a large number of forms to be filled in (plus spare duplicates). Further sets of forms can be bought separately.

Design

Since they are management consultants, the authors saw the challenge of converting historical cost accounts to current cost format as essentially a systems design problem. But there was also extensive input from the auditing side of the firm, and the project has been extensively field tested with clients.

How useful companies find this kit may depend to a large extent on the level of assistance they are getting from their auditors (assuming they are not Deloitte). When auditors are suggesting their own systems, care will have to be taken to avoid unnecessary confusion.

The authors point out that the official standard and guidance notes (copies of which, suitably cross-referenced, are included in the kit) give considerable scope for different interpretations at the detailed level.

"It is already obvious," they say, "that many varied forms of CCA treatment will emerge, each one claimed by its protagonists to comply with the standard."

For instance, the form supplied in the kit provides for calculating the current cost depreciation charge on year-end asset values, although it is equally legitimate to use average values. Here a slightly modified procedure will be required (on which guidance is given).

Inevitably, there are many decisions which companies will have to take when they move over to the more subjective current cost system, and any kit can only give generalised advice. Thus companies have to decide whether to use some of the specific price indices for fixed assets and stocks produced by the Department of Industry, whether to choose privately-produced indices instead, or in some cases whether to calculate in-house indices.

Yet though this kit make the production of c cost accounts a completely pa less process, it does seem to offer an eminently practica solution to the problems of many companies. It is certainly an attractive alternative to many hours spent at courses and seminars.

One tricky initial problem, however, could be whether the kit should be costed at historical cost (£39 plus VAT before the end of February) or the subsequent replacement cost of £45. Then again, the value to the business may well prove significantly higher than either.

* *By Michael Kirwan and John Belton, Tolley Publishing Company, 102 High Street, Croydon, Surrey CR0 1ND, £44.85 (inc VAT) until 28 February, thereafter £45 + VAT.*

Barry Riley

LOMBARD

How to tackle world slump

BY SAMUEL BRITTAN

NOT EVEN the Cambridge Economic Policy Group is always wholly wrong. Its December Economic Policy Review (published by Gower) contains an extremely interesting analysis of "World Trade and Finance."

Despite the inevitable references to the need for protection by "gentle" advanced economies, the characteristic Cambridge prescription of import controls play only a modest role in the proposals. Inevitably so, for import controls can hardly be advocated for the world as a whole unless it is being threatened by products from Mars.

Dangers

This puts one in a better mood for the main analysis. Its starting point is that the average rate of growth in Western Europe and the U.S. slowed down, from 3 to 4 per cent per annum before the 1973 oil price explosion, to 1 to 2 per cent since. Even Japan, which had been growing at 8 per cent, has come down to this range. The CEPG predicts growth of not much more than 1 per cent a year in developed countries up to 1985, accompanied by dangers of debt default on the part of the non-oil developing countries.

This general picture, if not the exact figures, is pretty well common ground. The novel feature is the view that the slowdown could have been, and could still be, averted despite the oil constraint. The core of the argument is an analysis of the exhaustion of oil reserves in a hypothetical single closed economy. The price of oil would rise dramatically. If oil producers did not spend their windfall profits there would be a classic crisis of oversaving and the depression would deepen to a point where a combination of reduced spending and energy economies eliminated the unspendable surpluses of the producers.

The main contention is that the price of oil should be allowed to rise in this hypothetical economy and that the surplus revenues of oil producers should either be taxed or borrowed by the Government and the proceeds used to subsidise other prices. On a world scale this means that governments of oil-importing countries should be prepared to run both budget and current account deficits to prevent a spiral of contraction.

The OPEC surplus does indeed underline the absurdity of making the current balance of payments a policy target in the rest of the world. The German Bundesbank's obsession with its country's current deficit has been criticised for this very reason by Prof. H Giersch of the Kiel Institute for World Economics — normally regarded as a stronghold of market economics and the polar opposite of the Cambridge Group. It is also reasonable that Governments should supplement the normal adjustment mechanism by borrowing excess world savings to finance their own budgets. Budget deficits have in fact increased markedly since 1973. The rule of thumb that many Governments have tried to use is to borrow as much as they can without either a monetary explosion or driving up interest rates to politically excessive levels.

Surpluses

The CEPG would of course argue that this constraint is a mistake. But it admits that in practice a world-wide monetary and fiscal policy of full-steam ahead and nothing else would not be very successful in generating growth. For apart from any other objections it would merely drive up the real oil price and boost OPEC surpluses to a point where the system would break down—if only because the credibility of the importers' IOUs would be totally undermined.

The CEPG would like to boost energy saving by physical measures while also using demand expansion as a deliberate device for raising prices and reinforcing the lesson. The aim of this strategy could however be achieved without its risks by a large tax on energy imposed by the major industrial countries in concert, the proceeds of which would be used to reduce consumer taxation. This is the very opposite of the low price energy for which producer pressure groups in all countries are insisting. Nevertheless, it would be the correct way of taking into account the common international (or "public good") interest in economising on oil which is greater than the sum total of each individual country's interest taken on its own.

Dismay for charities fighting against VAT payments

THE WEEK IN THE COURTS

BY JUSTINIAN

CHARITIES have already expressed dismay at the recent decision of Lord Grantchester, QC, the chairman of the Value Added Tax tribunals, that the membership subscriptions of the English-speaking Union of the Commonwealth are generally liable to VAT at the standard rate.

They will also be astonished to learn that both the union's distinguished member, Mr. E. V. Symons, a former Commissioner of Inland Revenue, and his opponent from the solicitor's office of the Customs and Excise, successfully dissuaded the chairman from referring certain questions to the European Court of Justice. (All the member states of EEC legislate in conformity with Council Directives on V.A.T.)

The crucial issue was whether the union was deemed to be carrying on business within section 45(2)(a), Finance Act 1972, or whether it could claim that by section 45(3) it was outside the meaning of "business."

"Business," the legislature says, includes "any trade, profession or vocation." It adds that the provision by "a club, association or organisation (for a subscription or other consideration) of the facilites or *advantages to its members is* deemed to be carrying on a business."

But where such a body has *objects in the public domain* it is not to be treated as carrying on business if a subscription obtains for its member no facility or advantage beyond that of an entitlement to take part in the management of the body or to receive reports on its activities.

A member of the English-speaking union pays an annual subscription of £5, of which £1 is zero rated and £4 is liable to VAT at the standard rate. Since 1977 a union member has not been entitled to use the club facilities at its union premises. The purpose of the change in the organisation of the union was to obtain registration as a charity under the Charities Act 1960 so that annual subscriptions could be paid under deeds of covenant with all the tax advantages that brings. In May 1977 the Charity Commission registered the English-speaking union the union as a charity, which it has remained.

It was found by the VAT tribunal to be providing its members with two facilities other than their right to participate in the management of the English-speaking union or to receive reports. These were the distribution, free of charge of two or three issues a year of its journal "Concord," and second, the ability through an information service to obtain *contacts and introductions* to other members in the English-speaking world with a view to advice and assistance on their *travels* and possibly an offer of some form of hospitality.

Lord Grantchester said the two facilities were neither trifling nor illusory: "In such circumstances, but with some hesitation and considerable reluctance, I have come to the conclusion that I cannot apply the '*de minimis*' principle. In the *result I hold that* the English-speaking union is to be deemed to be carrying on a business for tax purposes under the Act, and that all the goods and services which it supplies to its members for their subscriptions are taxable supplies."

That might not have disposed of the matter, because the question arose as to whether the solution under the UK legislation was affected by EEC law. The main point was whether the union could bring itself within the exemption for certain activities in the public interest within Article 13 of the Sixth Council Directive of the EEC of May 17, 1977. (The UK Finance Act 1972 establishing VAT was amended by the Finance Act 1977 to implement that directive.)

Lord Grantchester freely acknowledged that "Article 13 of the Sixth Directive bristles with difficult questions of construction in relation to the possible application" of its provisions and during the course of the hearing he suggested that he might refer certain questions to the Court of Justice at Luxembourg.

Since one of those questions was whether the relevant article had "direct effect" in the national laws of the member-states—that is to say, was part of the municipal laws that had to be applied like any other national law—it is hard to see why no reference was made. After all, the sole authority on the interpretation and meaning of an EEC law is the European Court and any doubts about EEC law should be referred not just for the benefit of the national tribunal immediately having to resolve a piece of litigation but also for the benefit of all the courts of the other nine countries who might be faced with similar disputes.

But Lord Grantchester was prevailed on not to refer any question. No doubt the union member did not wish to incur costs wholly disproportionate to the amount involved, however important the principles might be to the vast body of charitable organisations in this country. But what about the Customs and Excise? In an earlier case† counsel for the Customs and Excise had conceded that the issue of whether EEC directives are directly effective or not is eminently suitable for reference to Luxembourg; in that case the Court of Appeal had declined to make a reference because the facts on which a decision on the EEC law might have to be made had neither been adequately found nor agreed by the parties.

Questions to Europe should be framed in a manner appropriate to the particular case and only as and when there was a sufficient factual foundation on which the questions could be drafted. No such problem existed before Lord Grantchester, since he actually produced a series of draft questions that he would have wanted answered.

Why then were the VAT authorities so insistent on not obtaining guidance from the European Court on an issue that is fundamental to the exercise of their powers of recovering an important source of revenue? Does this reflect a growing bureaucratic dislike in Whitehall for being taken to Luxembourg?

Apart from the question whether the EEC directive—or parts of it—was directly effective in the UK, there were other interesting questions on the precise nature of the organisations that could claim exemption from VAT. The parties, no doubt because of their keenness to head off the tribunal from referring the case to Europe, curiously accepted that the union was deemed to be carrying on a business under section 45(2) of the Finance Act 1972. Charitable organisations would, no doubt, regard themselves as being wholly outside the purpose of VAT as not being in the business of "business."

Is an economic activity different from carrying on a business? Since EEC law is basically about free competition in economic affairs, it is reasonable to assume that charitable organisations are not competing economically with each other or with other non-charitable bodies, and to the extent that they engage in commercial-like operations (such as producing a house journal) they are not economically competitive.

Hence the essential question is whether the UK legislation in taxing those carrying on business is in fact mirroring the EEC law that taxes only economic activities. The question is ripe for a European answer. Charities may yet entertain some hope that their cause to avoid VAT is not a lost one.

**The English-speaking Union of the Commonwealth v. The Commissioners of Customs and Excise (LON/80/242), December 29, 1980.*

†Church of Scientology of California v. Commissioners of Customs and Excise [1980] 3 C.M.L.R. 114.

Ascot saddened by Kybo's death

RACING

BY DOMINIC WIGAN

THE DEATH of Kybo, a gelding who was arguably the most exciting Cheltenham Gold Cup prospect for 1982, overshadowed events at Ascot on Saturday.

Owned by that longstanding supporter of National Hunt racing, Isidore Kerman, Kybo was switched to chasing only last season after a memorable career over hurdles, which saw him nearly landing a Champion Hurdle.

There seemed every chance he would reach the pinnacle over fences for part from a spell on the "easy list" last season due to leg trouble Kybo had looked every inch a champion in the making.

Indeed, but for having lain ridiculously far out of his ground for 10 furlongs at Lingfield on his chasing debut, the handsome Candy Cane gelding would have been defending an unbeaten record over fences in Saturday's Jock Scott Handicap.

Kybo, who was found to have broken the tibia in a hind leg after a chapter of disasters which had been initiated through a blunder at the water, had in the past excelled at Ascot.

It is to be hoped that a race can be found to commemorate the Findon gelding on the course where he defied temporary lameness and Dramatist to land the Frogmore Chase following an absence of 13 months. In landing that race Kybo was notching his sixth course victory.

While Royal Bond was lifting Ascot's Lambert and Butler Final for Ireland that live Champion Hurdle prospect, Daring Run was enhancing his prospects at Navan.

Daring Run will probably take his chance in the Erin Foods Hurdle at Leopardstown on February 14, before heading for Cheltenham. *He is* top quoted at 10-1 by Corals and Hills for the Champion Hurdle.

Turning to today's sport, Jet On and *Lavengro appeal as the* best bets at Fontwell. Jet On among the runners for the Shripney Selling Handicap Chase, was fighting a losing battle against market leader, Shivers Regal, after a mistake at the penultimate fence in a similar event at Nottingham on January 5.

With a longer trip in his favour this afternoon Mrs. Rosemary Lomax's handily weighted eight-year-old can take advantage of the 7 lbs he receives from Baltic Love.

FONTWELL

1.00—Jet On***
1.30—Mount Temple
2.00—Lavengro**
2.30—Full Sutton
3.00—Durham Town
3.30—New Harbour

STOCKTON

1.15—Inkling*
2.15—Young Sagert
2.45—Marshall Field

ENTERTAINMENT GUIDE

OPERA & BALLET

THEATRES

CINEMAS

ART GALLERIES

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† Indicates programme in black and white

BBC 1

9.00 am For Schools, Colleges. 11.25 You and Me. 11.40 For Schools, Colleges 12.42 Regional News for England (except London). 12.45 News. 1.00 Pebble Mill At One. 1.45 Mister Men. *2.01 For Schools, Colleges. 3.00* When the Bough Breaks. 3.15 Songs of Praise. 3.53 Regional News for England (except *London). 3.55 Play School (as* BBC2 at 11.00 am). 4.20 Laurel and Hardy in "Fancy Trance." 4.25 Jackanory. 4.40 Playhouse. *5.05 John Craven's Newsround.* 5.10 Blue Peter.

5.40 News.
5.55 Nationwide (London and South East only).
6.20 Nationwide.
6.55 Triangle.
7.20 Star Trek.
8.10 Panorama: "How the Left Won."
9.00 News.
9.25 The Monday Film: "Winning" starring Paul Newman and Joanne Woodward.
11.25 In the Post.
11.50-11.55 News Headlines.

All Regions as BBC1 except as follows:

BBC Cymru/Wales—9.52-10.12 am Ysgolion. 1.45-2.01 pm Pila *pala. 5.55-6.20 Wales Today. 6.55* Heddiw. 7.15-8.10 To Serve Them All My Days. 11.50 News Headlines. News and Weather for Wales.

Scotland—11.00-11.20 am For Schools. 12.40-12.45 pm The Scottish News. 5.55-6.20 Reporting Scotland. 11.25 Cearcall. 11.55 16 Up. 12.20 am News and Weather for Scotland.

Northern Ireland—3.53-3.55 pm Northern Ireland News. 5.55-6.20 Scene Around Six. 11.50 News Headlines. News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds); Look North (Newcastle); Look North West (Manchester); Midlands Today *(Birmingham); Points West* (Bristol); South Today (Southampton); Spotlight South West (Plymouth).

BBC 2

10.00 am Focus.
10.25 Working With Young People.
11.00 Play School.
11.25 Write Away.
2.15 pm Let's Go.
2.30 Multi-Racial Britain.
3.00 Embroidery.
3.30 Wainwrights' Law.
4.15 Modern Language Teaching.
†5.40 Laurel and Hardy in "Scram."
6.00 Michael Strogoff.
7.00 Rock Goes to College.
7.40 Mid-Evening News.
7.50 Cameo.
8.00 Barry Manilow World Tour.
9.00 The Hitch-Hiker's Guide to the Galaxy.
9.30 Horizon.
10.20 Evans on Newspapers.
10.45 Newsnight.
11.30 Télé-Journal.

LONDON

9.30 am Schools Programmes. 12.00 Button Moon. 12.10 pm Rainbow. 12.30 Your Chance. 1.00 News, plus FT Index. 1.20 Thames News. 1.30 Crown Court. 2.00 The Riordans. 2.30 Monday Matinee: John Wayne in "The Barbarian and the Geisha." 4.15 Dr. Snuggles. 4.20 The Sooty Show. 4.45 The Book Tower. 5.15 Money-Go-Round.

5.45 News.
6.00 Thames News.
6.35 Crossroads.
7.00 Wish You Were Here . . .?
7.30 Coronation Street.
8.00 Shelley.
8.30 World In Action (Interview with Michael Foot).
9.00 The Sweeney.
10.00 News.
10.30 The Troubles.
11.50 The Monte Carlo Show with David Soul and Petula Clark.
12.45 am Close: "Sit Up and Listen" with Christine Smith.

All IBA Regions as London *except at the following times:*

ANGLIA

1.20 pm Anglia News. 2.00 Money-Go-Round †2.30 Monday Film Matinee: *"Sitting Pretty"* starring *Maureen* O'Hara and Clifton Webb 5.15 University Challenge 6.00 About Anglia. 6.30 Movie Memories. 11.50 Music at Harewood 12.20 am Reflection about *Motherhood*

ATV

1.20 pm ATV News. 2.00 Best Sellers: "The Moneychangers" Part 2 3.25 The Sounds Of . . . Rich. Lee 3.45 Money-Go-Round 5.15 Gambit. 6.00 ATV Today 11.50 ATV News. 11.55 Something Different.

BORDER

1.20 pm Border News 2.30 Monday Matinee: "Lacy and the Mississippi Queen." 3.45 Money-Go-Round 5.15 Gambit. 6.00 Lookaround Monday 6.15 The Sounds of . . . 6.30 The Entertainers 11.50 *Border News* Summary.

CHANNEL

1.20 pm Channel Lunchtime News, What's On Where and weather 2.00 *The Monday Matinee: "The Spirit is* Willing. 3.45 Money-Go-Round 5.15 Gambit. 6.00 Channel Report. 6.15 Cartoontime 6.30 The Amazing Years of Cinema 10.28 Channel Late News. *11.50 News and weather in French*

GRANADA

1.20 pm Granada Reports 2.00 Money-Go-Round. 2.30 Monday Matinee: "Woman of the Year." 5.15 Gambit. 6.00 Granada Reports. 11.50 Kate Loves a Mystery.

GRAMPIAN

9.25 am First Thing. 1.20 pm North News 2.00 Best Sellers ("The Moneychangers"). 3.25 Sounds of . . . Rich Lee. 3.45 Money-Go-Round 5.15 Gambit 6.00 North Tonight 6.30 Country Focus. 11.50 Reflections. 11.55 Living and Growing. 12.25 am North Headlines.

HTV

1.20 pm HTV News. 2.00 Money-Go-Round. 2.30 The Monday Matinee: "Fenner." 5.15 Gambit. 6.00 Report West 10.28 HTV News. 11.50 Quincy.

HTV Cymru/Wales: As HTV West except:—10.05-10.20 am About Wales. 11.05-11.20 Am Cymru. 12.00-12.10 pm Ffalabalam. 4.15-4.20 *Paramount* Cartoon 4.45-5.15 Ser. 6.00 Y Dydd. 6.25-7.00 Report Wales. 8.30-9.00 Yr Wythnos.

SCOTTISH

1.20 pm News Headlines and road and weather report. †2.00 The Stars in Black and White: "No Highway In The Sky" starring James Stewart, *Marlene Dietrich and Jack Hawkins.* 3.45 Money-Go-Round. 5.15 Gambit. 6.00 Scotland Today. 6.40 Crimedesk. 7.00 Now You See It. 11.50 Late Call. 11.55 Living and Growing For Adults.

SOUTHERN

1.20 pm Southern News. 2.00 Houseparty. 2.25 "Non-Stop New York" starring John Loder. 3.45 Money-Go-*Round* 5.15 *Diff'rent Strokes.* 6.00 Day by Day including Southsport. 11.50 Police Surgeon.

TYNE TEES

9.20 am The Good Word. 9.25 North East News. 1.20 pm North East News and Lookaround. 2.00 Money-Go-Round 2.30 Monday Matinee: "Geordie" starring Bill Travers and Alastair Sim. 5.15 Happy Days. 6.00 Northern Life. 10.30 North East News. 11.50 First Class Citizen.

ULSTER

1.20 pm Lunchtime. 2.30 Monday *Matinee: "Lacy and the Mississippi* Queen." 3.45 Money-Go-Round. 4.13 Ulster News. 5.15 Gambit. 6.00 Good Evening Ulster. 10.29 Ulster weather. 11.50 Bedtime.

WESTWARD

1.20 pm Westward News Headlines. 2.00 The Monday Matinee: "The Spirit is Willing," starring Sid Caesar and Vera Miles. 3.42 Gus Honeybun's Birthdays. 3.45 *Money-Go-Round.* 5.15 Gambit. 6.00 Westward Diary. 10.31 Westward Late News. 11.50 Faith for Life. 11.55 West Country weather, shipping forecast.

YORKSHIRE

1.20 pm Calendar News. 2.00 Money-Go-Round. 2.30 Monday Matinee: "Long Journey Back." 5.15 Gambit. 5.00 Calendar (Emley Moor and Belmont editions). 6.35 Happy Days.

F.T. CROSSWORD PUZZLE No. 4,472

ACROSS

1 Conference with prisoner? Oh I say (6)
4 Friend on piano with talent that can be felt (8)
10 Share plot in process of cultivation (9)
11 Left one leading airman to blossom (5)
12 Liberal has muddled whip (4)
13 Pole just rings up London area (5, 5)
15 Lacing holes to make oriental maybe steely (7)
16 Evasive move made before end of day (6)
19 Trouble with reception still there (6)
21 Worried at being cut out (7)
23 Neat endings ought to raise starter (6, 4)
25 Pitch on a part of old Ireland (4)
27 All right by a sanctimonious creature (5)
28 Country might have army (4, 5)
29 Notice to revoke without turncoat (8)
30 Outlaw joins gang with sex-appeal (6)

DOWN

1 Fruit tells story to decorated costers (8)
2 Sensibly laid out cathedral shut up (4, 5)
3 A hot stormy curse (4)
5 She plays with current lock (7)
6 A lot of money club makes from tremendous shot (4, 6)
7 Wood a block turns up (5)
8 A scene change to cover up (6)
9 Cove during interval (6)
14 Suitable location for Yorkshire cowboy film? (4, 6)
17 Painter blushing in the shade (6, 3)
18 Next to a record spinner taking foreign money (8)
20 Manoeuvred on board as players were winning (7)
21 Complaint over 10 ingredients coming easily (6)
22 Behold grim exterior of sorrow (6)
24 Two-dimensional American writer (5)
26 Going over an early English king (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

Radio Wavelengths

1	1053kHz/285m 1089kHz/275m	3	1215kHz/247m & 90-92 5vhf stereo	BBC Radio London: 1458kHz, 206m & 94.9vhf
2	693kHz/433m 909kHz/330m & 88-91vhf stereo	4	200kHz/1500m & 92 95vhf	Capital Radio: 1548kHz, 194m & 95.8vhf
				London Broadcasting: 1151kHz, 261m & 97.3vhf

RADIO 1

(S) Stereophonic broadcast ‡Medium wave

5.00 am As Radio 2 7.00 Mike Read. 9.00 Steve Wright 11.00 Andy Peebles 12.30 pm Newsbeat. 12.45 Paul Burnett 2.32 Dave Lee Travis. 4.32 Peter Powell 7.00 Stayin' Alive. 8.00 Richard Skinner. 10.02-12.00 John Peel (S).

RADIO 2

5.00 am News Summary. 5.03 Bob Kilbey (S). 7.32 Terry Wogan (S). 10.03 Jimmy Young (S). 12.03 pm David Hamilton (S). 2.03 Ed Stewart's Request Show (S). 4.03 Much More Music with David Symonds (S) 6.03 John Dunn (S). 8.02 Folk on 2 (S). 9.02 Humphrey Lyttelton (S). 9.55 Sports Desk. 10.02 The Monday Movie Quiz 10.30 Star Sound 11.02 Brian Matthew with Round Midnight, including 12.00 News 2.02-5.00 You and the Night and the Music (S).

RADIO 3

6.55 am Weather. 7.00 News. 7.05 Overture (S). 8.00 News. 8.05 Morning Concert (S). 9.00 News. 9.05 This Week's Composer: John Dowland (S) 9.40 Gabrieli String Quartet *recital part 1 (S). 10.10 Interval* Reading. 10.15 Recital, part 2. 11.10 French Baroque Cantatas (S). 11.55 Scottish Chamber Orchestra (S). 1.00 pm News 1.05 BBC Lunchtime Concert (S). 2.00 Matinee Musicale (S) 3.00 New England Ensemble of Australia (S). 4.00 New Records (S). 4.55 News. 5.00 Mainly for Pleasure (S). 7.00 Two Clarinets (S). 7.30 BBC Symphony Orchestra concert, part 1: Beethoven, Berg (S). 8.15 Houses (poetry readings). 8.35 Concert, part 2: Beethoven (S). 9.30 Music for Clavichord (S). 10.05 The Eternal Husband 10.25 Jazz in Britain (S) 11.00 News. 11.05-11.15 BBC Singers Schutz (S).

RADIO 4

6.00 am News Briefing. 6.10 Farming Week 6.25 Shipping forecast. 6.30 Today, including 6.45 Prayer for the Day. 7.00 8.00 Today's News. 7.30 *8.30 News headlines,* 7.45 Thought for the Day. 8.35 The Week on 4 8.45 John Ebdon with the BBC Sound Archives 9.00 News 9.05 Start the Week with Richard Baker 10.00 News *10.02 Money Box.* 10.30 Daily Service 10.45 Morning Story. 11.00 News. 11.05 Come Let's To Bed Says Sleepy-Head 11.50 Poetry Please! 12.00 News 12.02 pm You and Yours. 12.27 *Old Tock's Almanac (S).* 12.55 Weather: Programme News 1.00 The World at One. 1.40 The Archers. 1.55 Shipping forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Afternoon Theatre: "The First Men in the Moon" by H. G. Wells. 4.35 Just the Job 4.45 Story Time. 5.00 PM: *News magazine.* 5.50 Shipping forecast. 5.55 Weather; programme news. 6.00 News 6.30 Frank Muir Goes Into . . . Anger. 7.00 News. 7.05 The Archers. 7.20 The News Quiz (S). *7.50 The Monday Play (S) 9.05 Is* There A Spirit in the House? 9.30 Kaleidoscope 9.59 Weather. 10.00 The World Tonight. 10.30 Science Now. 11.00 A Book at Bedtime. 11.15 *The Financial World Tonight.* 11.30 Today in Parliament. 12.00 News.

BBC Radio London

5.00 am As Radio 2. 6.30 Rush Hour. *10.03 The Michael Rodd Telephone* Programme. 1.03 pm London Live. 4.30 London News Desk. 5.35 Music on the Move. 7.03 Black Londoners. 8.00 Question Time from the House of Commons. 9.00-5.00 am Join Radio 2.

London Broadcasting

6.00 am AM: Bob Holness and Douglas Cameron. 10.00 *Brian Hayes.* 12.00 LBC Reports. 7.00 pm London Life. 9.00 Nightline. 12.00 LBC Reports Midnight. 1.00 am Night Extra 3.30 LBC Cinema. 4.00 After *Eight Sunday (repeat).* 5.00 *Morning* Music.

Capital Radio

6.30 am Mike Smith's Breakfast Show. 10.00 Michael Aspel. 12.30 pm Graham Dene. 1.00 First Report 1.10 Graham Dene (continued). 3.00 Roger Scott. 7.00 London Tonight with Sarah Ward 9.00 Alan Freeman. 11.00 Tony Myatt's Late Show. 2.00 am Night Flight.

THE ARTS

Gaumont, Southampton

Giselle

by CLEMENT CRISP

There are few things more heartening than to see young dancers taking their first steps in the traditional ballets, that life-blood of a repertory company. Sherylin Kennedy has danced *Giselle* during the Sadler's Wells Royal Ballet's Far Eastern tour, and on Saturday afternoon she was scheduled to make a local début in the role. In the event, a cast change meant she also danced on Friday night, the next day's matinée, which I saw, being her first appearance with a brand new Albrecht, Michael Corder.

SWRB still maintains Peter Wright's lively dramatic version of *Giselle*, and thereby offers an antidote to the sickly Covent Garden staging. It is good to see how welcoming this production is to its interpreters, in offering a reasoned frame-work for characterisation, and how intelligent is its approach to the fevers of Romantic melodrama. There are faults, notably in the heavily feathered appearance of the hunting party, and more seriously in the unmagical and badly lit forest setting of Act 2, but these are quibbles when contrasted with the coherent and willing qualities of the company's playing.

A young dancer, Susan Crow, shows Berthe as a sensible, concerned peasant mother; Samira Saidi's Bathilde is a Bolshoy-style view of the princess, unamused by village antics; the first act sextet is full of good dancing; the wilis' evolutions have a fine edge of Gothick menace. The final accolade for this production is that the drama lives, not least in the immature but touching readings of its two principals on Saturday afternoon.

Sherilyn Kennedy shows us a sunny Giselle, radiant in her love for Loys, eager to dismiss the pangs of heart disease, and, when she learns of Loys' deception, bringing as much intensity to her suffering as to her earlier happiness. Her interpretation has a bright, impulsive energy, the dance fired by a liveliness that conveys everything of the girl's quick emotions. She will act in the occasion for true, unfussed dancing, eloquent of protective live. Still inexperienced, lacking something of fantasy in the second act, which is a dream dreamed by the heyday of Romanticism; her performance is yet deserving of much praise and encouragement.

From the moment he takes the stage, Michael Corder tells us that Albrecht is a nobleman. There is an aristocracy of bearing and of dance style that makes his infatuation for Giselle a dilemma to engage the dramatic cogs of the first act. His portrayal is well thought out — I liked his indecision when Albrecht first hears of the hunting party; his agonising as Giselle dies has a distraught fervour — and those blank spots when Albrecht seems more observer than participant will disappear with greater experience.

The moonlit uncertainties and passions of the second act reveal Corder as a convincing hero. In the Covent Garden troupe he was a dancer remarkable for the open stretch of his dancing and his distinguished line; he now brings to Albrecht's great set-pieces a boldness of expression and a technical polish that give entire credibility to the choreography and to the drama.

The afternoon began with David Bintley's recent *Polonia*, boldly done, with Iain Webb's muscular alertness specially notable. It is a fine piece; it avoids every pitfall of folksiness, yet persuades us of an essential Polish-ness to its dances.

Wigmore Hall

São Paulo Quartet

by DAVID MURRAY

The Municipal String Quartet of São Paulo bears the name of an older team; its present members were *assembled in 1979*, and are undertaking their first European tour. It began in some confusion on Saturday afternoon with an audience expecting masterpieces by Haydn (the D minor quartet from Op. 76) and Beethoven (the second "Rasumovsky"), and being given Brahms and early Schubert instead.

The Schubert was the suavely innocent E-flat Quartet, D.87, affectionately delivered. The collective sound of the team is warm, husky, extremly well balanced; their centre of tonal gravity seems further down than is usual, perhaps because the violinists *are both ladies* and the lower strings gentlemen—but there is no lack of authority in the playing of the leader, Maria Vischnia, and she is strongly supported by Ariane Pfister. Schubert's Adagio sounded a touch prostaic, perhaps, and his Finale less pointedly lively than might be; otherwise the performance was *assured and engaging*. The Brahms Quartet Op. 51 No. 2 took some time to settle into the right idiom, compromised at the outset by slips in intonation, but contrived to end rousingly.

In between came the only work originally announced, the Quartet No. 1 by the 28-year old Villa-Lobos. It proved to be an unpretentious winner. Though its six brief movements are no more harmonically venturesome than, say, Granados—and quite innocent of the trick effects that were to become a Villa-Lobos tic—they breathe the cheerful vitality that makes the best Villa-Lobos so disarming. *There are good little* tunes, much variety, and democratic opportunities for all the players: the violist George Kiszely took his with notable panache. For this excellent introduction to a delightful piece, a dee pand grateful bow.

Jazztours dates announced

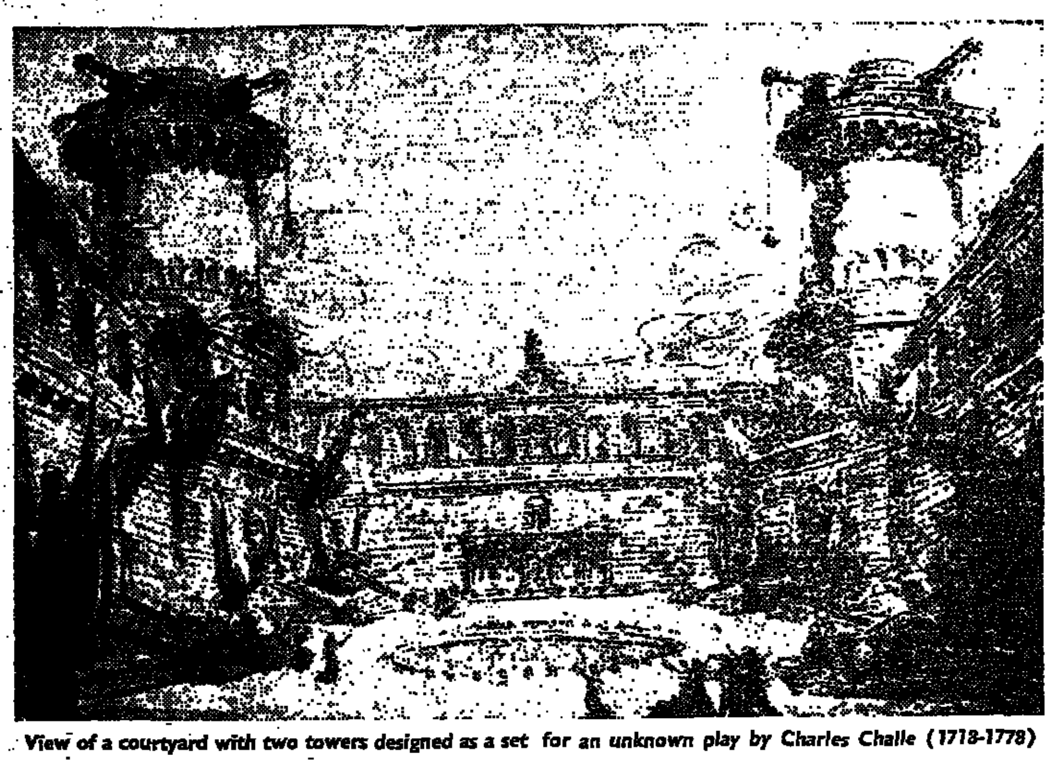
Jazztours, set up at the end of last year by the Jazz Centre Society and claimed to be the largest jazz touring circuit in England, has begun 1981 with an 11-date tour by the Don Weller/Bryan Spring quartet which ends on January 25 at the Leeds Playhouse.

The second 1981 Jazztours package is from January 27 to February 14 and features guitarist Kenny Shaw and his band plus saxist/entertainer Lol Coxhill *who will perform* both solo and with the band.

The third tour (February 13-25) presents a complete contrast—Johnny Dyani's Witchdoctor's Son. Dyani, a South African expatriate and a founder member of Chris MacGregor's Blue Notes, will play piano as well as bass, his usual instrument.

Additionally during February, Bobby Wellins, Mike Westbrook and Barbara Thompson will be involved in regional tour dates in association with the Eastern and South East Arts Associations and the JCS.

Full details of the tours from Alan Giddings at the JCS, 35 Great Russell St., WC1 (580 8532).



View of a courtyard with two towers designed as a set for an unknown play by Charles Challe (1718-1778)

Architecture

Feasts for the eye

by COLIN AMERY

Sir John Drummond-Stewart died in 1838 heavily in debt because of his love of architecture. He had built himself a huge castle at Murthly to the designs of James Gillespie Graham; *he was a friend of* Sir Charles Barry and a great collector of designs and architectural drawings. Throughout his life he spent money on building and drawings and he must have laid out a fair sum of money when he was travelling in Rome and Paris in the early 19th century.

On his death his collections, but not his debts, were given to the Royal Institute of British Architects and are now being shown at the institute's Heinz Gallery at 21, Portman Square until February 14.

The first thing to say about the exhibition is that everything in it is of a wonderfully high quality. Sir John knew a good drawing when he saw one and as he was often buying the work of his contemporaries he must have had great confidence as well as a good eye. The largest coherent group of drawings on show is a selection of stage settings by 18th and early 19th century designers. The most famous of the designers are the Bibiena family who were working from 1657 to the 1770s. Of particular interest are the lyrically beautiful sets for a production of *La Clemenza di Tito* which was performed in the new theatre *in Lisbon in 1775 to celebrate* the King of Portugal's birthday.

There are stage sets by other designers, mostly Italian, and it is impossible to say whether the designs were for plays or operas that were performed or whether they are just the most ravishing architectural fantasies. The drawings by Pietro Ringhi (1683-1742) and Mauro Tesi (1730-1762) are interesting examples of the beginnings of less formal stage settings — early attempts to establish mood and atmosphere.

Several of the later drawings in this stage section are really virtuoso examples of drawing in the neo-classical style. A smaller group of drawings are *stunning examples of the art of* perspective as practised by Italian 18th century ceiling designers. There are ten glorious drawings on display, each one a masterly example of the conquest of space by the pen. They are some of the most beautiful drawings to be seen in London.

The remainder of the show is devoted to a kind of drawing that no longer exists—views of public ceremonies. So often the junketing in the Vatican or the great Roman Baroque churches looks in these drawings as though the ceremonial and the setting were designed *by the same hand, specifically as* spectacles first and religious ceremonies second. Papal processions, blazing candles, illuminated crosses and gorgeous conclaves are all seen by the artists rather in the way that a television producer today masterminds a royal funeral or coronation as a TV spectacular.

★

Royal architecture of another kind figures prominently in a most handsome pair of books that were launched last week. *Traditional Islamic Craft in Moroccan Architecture* by André Paccard is published by Editions Atelier 74 at £125 *through leading* booksellers. While the book is expensive it is seen as an essential tool for any architect or designer working within the Islamic tradition. It is the first complete practical reference book that examines every aspect of the Islamic building tradition. M. Paccard has been working for ten years for the King of Morocco building and restoring the royal palaces and he has acquired his grounding in the traditional skills from the Maallems (literally "those who know"), craftsmen working in all materials and disciplines.

There is no doubt that "le Paccard" is one of the most beautiful architectural books to have been published recently.

★

There is still time (until January 31) to see an intriguing exhibition at the Museum of London in the Barbican devoted to the work of the Silver Studio. The Silver Studio was founded in 1880 and it was the family business run by Arthur Silver and his two sons until 1963 from Hammersmith. The firm produced more than 30,000 designs for wallpapers, furnishing and dress fabrics, linoleum, carpets, metalwork, stencils and even book jackets which were used by firms like Liberty, Sanderson and Courtauld.

The interest of this firm is that it covered a very wide design range not just in time, from art nouveau to 1960s, but also in quality, from very middle of the road middle class taste to the occasional high spots like the silver designs by Archibald Knox. It is an unusual exhibition to find in the City and it should be seen.

★

At last someone has done it. A book appeared this week called *The best buildings in Britain* written and published by SAVE Britain's Heritage. Until now if you wanted to know where the officially listed Grade I buildings in your county actually are it was necessary to ferret about in planning offices or visit the DOE itself. There are 5,034 Grade I listed buildings in England and with Wales and Scotland they are all now here in one volume.

It is an excellent one volume reference book and is available for £5.50 including postage (UK only) only from SAVE Britain's Heritage, 3, Park Square West, London, NW1.

Odeon, Hammersmith

The Boomtown Rats

Around 15 months ago The Boomtown Rats played a confident and successful concert at Hammersmith which suggested they were the band for the mass middle ground—a bit clever; a bit rebellious; but quite flashy, with a cult figure in singer Bob Geldorf, and enough musical imagination to make it easy for the record buying public. Then the Rats disappeared and The Police nipped in with a simpler version of rock muzak.

Judging by Saturday's concert at the Odeon the Boomtown Rats have got to do it all over again. Nothing was really wrong; it is just that building an act around a new album, unknown to most of the punters, is always risky, especially when "Mondo bongo," the record in question is a typical fruit of success, high in production values to the point of pretentiousness but with nothing to spark the body or soul. Inevitably success has drawn out and dissipated the musical and imaginative sting that made the early Rats' songs way above average.

So it was a workmanlike Bob Geldorf, in black beret, and operating a simpler stage-set than in the past, who finally succeeded in making the audience go through the motions and stand and clap to the finale of old time favourites. Before that it was a pretty sedate affair, the run through of impersonal new songs broken by an offer by Geldorf to the dancers in the audience to come up on stage and gyrate behind a screen to "The elephants graveyard." Even "Having my picture taken" was played low key, with just the band getting into focus for a snapshot. By "Rat-trap" things were livening up, but the carefully orchestrated climax and encores only succeeded in confirming the impression that this was the Rats playing an obscure Mid West high school gig near the end of an exhausting world tour rather than London. Something more *was expected from Geldorf who* cannot yet afford to coast on a reputation.

ANTONY THORNCROFT

Cambridge University Music School

Stiffelio

by ELIZABETH FORBES

Verdi's opera *Stiffelio*, which comes between *Luisa Miller* and *Rigoletto* in the canon, and was first performed at Trieste in 1850, suffered fatally from its subject — the marital problems of an Evangelical minister — in 19th century Italy. Nowadays it is the libretto of *Aroldo*, Piave's and Verdi's reworking of the opera, set in 12th century "Kenth, on the banks of Loch Lomond," that seems ludicrous, while the tale of a pastor who forgives his wife for her unfaithfulness during his absence on a preaching tour may be regarded as admirable from the moral point of view.

Aroldo was first heard in Britain in 1964 at St. Pancras Town Hall; *Stiffelio* was given in English translation in 1973 at the *Collegiate Theatre* by University College, London Music Society. The four performances of *Stiffelio* last week by the Cambridge U.O.S. were the first in this country in Italian. The score positively bristles with examples of Verdi's new, intimate style, already much in evidence in *Luisa Miller*, and to reach full blossom in *La traviata*. Stiffelio himself (tenor) is particularly well characterised through his music: the disbelief, rage, sorrow and finally loving compassion with which he reacts to his wife's adultery, are graphically depicted.

Lina, the wife (soprano), is equally convincingly drawn: her constant love for her husband, genuine remorse for her sin, and fear of her father, Count Stankar, all emerge from the score. Unfortunately, for the consistency of the opera as a whole, or fortunately, for the baritone singing the part, Stankar brings a gale of that whirlwind energy so characteristic of early-period Verdi to blow apart the polite conventions of the text. Having forbidden Lina to confess to her husband, to safeguard his own honour, Stankar challenges her lover to a duel when the secret is discovered, provoking the reluctant young man to fight in, of all places, the churchyard.

Malcolm Hunter's production, on the wide, shallow platform stage of the Music School, deals deftly with the problems of getting the characters on and off. Rightly seeing the work as a contemporary social drama, *à la traviata*, he keeps melodrama at bay as much as possible, but is foiled by Verdi, who, inspired by Stankar's old-fashioned conception of honour, provides a superb baritone aria as well as a typical father/daughter duet. Andrew Neubauer's abstract designs, ingeniously lit by Tony Roper, serve well for graveyard and church, less well for the interior of Stankar's castle. The costumes are late 19th century.

Christopher Gillett plays Stiffelio with just the right mixture of piety and innocence, *while his open, unforced singing* and thoughtful phrasing give much pleasure. As Lina, Bronwen Mills manages both to express repentence and to indicate a passionate nature under the sober black dress of the pastor's wife. Paul Wilson, fulminating in a frock coat as Stankar like some outraged Victorian *paterfamilias*, fully deserves the ovation he gets for his eloquent singing of "Lina, pensai che un angelo." Paul Harrhy does what he can for Lina's tenor lover Raffaele, always in the wrong. Graeme Jenkins conducts the CUOS chorus and orchestra with welcome care for balance and ensemble. He obtains firm, crisp rhythms from players and singers.

St. John's, Smith Square

Peter Grimes

by ELIZABETH FORBES

Abbey Opera's enjoyable concert performance of *Peter Grimes* at St. John's, Smith Square on Saturday night had as pretext—should any be needed—the first assumption of the title role of Britten's opera in this country by Alberto Remedios, who has already sung the part on stage in Buenos Aires and Prague. The list of tenors, from Peter Pears and Richard Lewis at the lighter end of the spectrum, to Ronald Dowd, Richard Cassilly and Jon Vickers among the heavy-weights, who have incarnated Peter Grimes, is long and distinguished. Mr. Remedios can be classified somewhere in the middle, with the welter-weights to continue the boxing analogy.

In a concert performance it *is naturally the purely vocal and* introspective aspects of the role that emerge most strongly, and Mr. Remedios excelled in Grimes' three monologues: "Now the Great Bear and Pleiades" in the scene inside The Boar, which he sang with a rapt lyricism in effective contrast to the storm music in the orchestra; the long apologia in Grimes' hut, where he brought out the different, and warring, sides of the fisherman's schizoid personality very clearly; and the final mad-scene on the beach, which Mr. Remedios made less frenzied in tone than some of his predecessors have done, but which was equally, or more moving for the restraint.

Otherwise it was the duologue with Captain Balstrode, sturdily portrayed by Alexander Gauld, during the storm at the end of the first scene of Act 1 that best demonstrated the dramatic strength of his performance. Grimes' relationship with Ellen Orford was shown up as an impossible *dream from the begin*ning, at the inquest. In a staged performance Mr. Remedios would no doubt bring greater conviction to Peter's vision of a better life, while it is no denigration of Suzan Bingeman's sympathetically sung Ellen to say that she, too, needed the density of actual impersonation to give dramatic credence to her character.

Nuala Willis made a splendid Auntie, her sepulchral tones always lit with irony. Michel Kallipetis was a jaunty Ned Keene, and Lawrence Reed a pompous Swallow. Jacqueline Edwards and John Walton had brave tries at Mrs. Sedley and Bob Boles respectively, but were defeated by their roles' tessitura, low in the first case, high in the second.

Abbey Opera and English Bach Festival Choruses produced compact tone and fierce attack for the man-hunt. Their diction was exemplary. Abbey Orchestra, the wind sections especially, played devotedly for Antony Shelley, whose conducting kept a tight rein on his forces, while maintaining the strong dramatic impulse of Britten's marvellous score.

Purcell Room

Bush at 80

by ANDREW CLEMENTS

Alan Bush's 80th birthday fell on December 22 last. The event was marked on that day by a Radio 3 broadcast recital and a continuing (if sporadic) series of programmes. But a more personal celebration took place in the Purcell Room on Saturday. Bush founded the Workers' Music Association in 1936 and became its president five years later. The affectionate tribute organised by the WMA was necessarily small-scale, but gave some idea of the development and scope of his achievement.

Between the A minor string quartet, written in 1923 when Bush was a pupil of John Ireland, and the 24 preludes for piano of 1976, the difference in style is not as great as one might expect. But Bush's music underwent the unusual linguistic change: to the "English" sound of the quartet were gradually added more cosmopolitan elements, until in his immediately pre-war work Bush had perfected his own highly personal thematicism, as rigorous in its own way as 12-note technique. But in the late 1940s this highly wrought language was dicarded in favour of a more popular idiom, a return to honest diatonicism and an electicism that borrowed happily upon a variety of folk musics.

In Saturday's programme the change was marked most vividly in the pair of piano pieces played by William Langford. *Relinquishment* (1929) is a sustained, serious piece, grading its climaxes carefully and working hard upon a small number of motives. *Corentyne Kwe-Kwe* (1975) is a toccata built upon African and South American tunes—rumbustious and energetic but never getting away from a direct evocation of its basic material. Where the early music was strongly flavoured, works such as the piano preludes and *Three African Sketches* for flute and piano of 1960 have less fibre and rely on surface colour to make an impact.

Performances were in general more enthusiastic than refined, though the Locrian String Quartet made a splendid job of the early quartet and could profitably bring it to a far wider audience, together with Bush's *Dialectic* for string quartet not included here.

The concert had begun with *a fulsome tribute from Ronald* Stevenson, and in it he referred to Bush's neglect in his own country. Mr. Stevenson ascribed it entirely to Bush's political stance—the establishment may accept Marxist artists, he suggested, so long as they are foreign, but will not tolerate it in their own kind.

That political censorship has played the major part in Bush's isolation is undeniable and regrettable, but listening to this conspectus of his music made one wonder whether other, more strictly musical factors were also involved. His avowed wooing of a much wider audience in his post-war music must have disappointed many previous admirers who valued his independence and the alternative way of coming to terms with the problems of modernism that it suggested. When the music ceased to develop it lost much of its intrinsic interest—could it be that musical conservatism and political radicalism are a combination which any audience, young or old, finds it hard to justify?

TENNIS BY JOHN BARRETT

Borg secure in the world top spot

1980 MEN'S WORLD RANKINGS

1 Bjorn Borg (Sweden)
2 John McEnroe (U.S.)
3 Jimmy Connors (U.S.)
4 Ivan Lendl (Czechoslovakia)
4 Gene Mayer (U.S.)
6 Guillermo Vilas (Argentine)
7 Harold Solomon (U.S.)
8 Vitas Gerulaitis (U.S.)
9 Brian Gottfried (U.S.)
10 Jose Luis Clerc (Argen*tine*)

AS BJORN BORG stood in yesterday's Volvo Masters final against Gene Mayer in New York, poised on the brink of a second successive title, the 24-year-old Swede could look back on another year of *immense achievement*. His place at the head of the world rankings was secured for the fourth year in a row.

By claiming a fifth French title and triumphing again at Wimbledon to extend his winning running to five, Borg stamped himself as one of the greatest players of all time. From 11 Grand Prix tournaments, two cup events and an invitational tournament, he won six titles, was a finalist three times and lost only five matches in the year.

John McEnroe's claim to second place is unquestioned. His leading Wimbledon final *against Borg, with its historic* 18—16 fourth set tie break, and his five-set revenge in the U.S. Open final were the peak of a tremendous year in which he won eight of the twelve finals.

Although Jimmy Connors had two wins over McEnroe, in the WCT final and the U.S. Pro *Indoor final*, he lost in both the Wimbledon and U.S. Open semi-final and was beaten twice by Borg. However, he remains the most durable of the Top Ten having entered that select list in 1973—one year before Guillermo Vilas—and last year won five of the eighteen Grand Prix tournaments he entered.

Most impressive of the younger men is 20-year-old Ivan Lendl of Czechoslovakia. He was the only man to beat Borg twice last year (one of them a default in the second set). Competing in a staggering 31 tournaments he won seven of them and, in addition, helped *his country to their first Davis* Cup success.

Gene Mayer's advance was almost as dramatic. But, his five tournament wins from 19 starts did not include a win over the top three. Thus, his successes at the Masters last week where he beat McEnroe, *Jose Luis Clerc* and Borg en route to the semi-final was a real breakthrough.

Although Vilas won only three of the 18 tournaments he contested (including the Italian Open) he did have a first win against Borg since 1975 in the Nations Cup and McEnroe in the Davis Cup.

Of the rest Harold Solomon was a semi-finalist in Paris and won four tournaments; Gerulaitis struggled all year but did beat Connors to reach the French final; Gottfried beat Lendl in Paris and reached the semi-final of Wimbledon and Clerc defeated Connors and McEnroe and won six titles but failed in the major events.

The unfortunate events of last week when McEnroe, who had already been eliminated, as well as Borg and Lendl who were already certain of semi-final places, all lost listlessly in their last round-robin group matches, suggests that this formula has outlived its usefulness.

To have all eight players competing on each of the first three days is a spectator's dream but it becomes a promoter's nightmare when the effort cannot be guaranteed. Perhaps the women's formula of an automatic semi-final place for players with two wins and crossed matches between the groups for players with a one-win win-loss record should be adopted

Personally, I would prefer a return to a straight knockout format with five-set matches and a day of rest between rounds. The move this year back to a five-set final was a step in the right direction but this potentially great tournament will not enjoy the full prestige it deserves until all the matches are played over the full distance.

Saturday's semi-finals provided two fine contests. Lendl overpowered Mayer 6—3, 6—4 with some of the best serving on a slow court I have ever seen (there were 14 aces). Borg beat Connors 6—4, 6—7, 6—3 in a full-blooded contest of fierce hitting that was breathtaking in its power, consistency and pace. Borg described it as their best match for years.

RUGBY by PETER ROBBINS

Match may herald philistine era

IN RETROSPECT Wales's match against New Zealand in November was perhaps a piece of good fortune because it enabled the Welsh selectors to see where changes were necessary.

Not all the changes were made. That match also reminded us of the real game of rugby, of the skills, arts and sense of adventure we had been accustomed to from the Welsh side in the Seventies.

On the evidence of the match against England the Eighties will be the era of the philistines. Surely Cardiff has never seen a match between two more frightened sides. Wales won in the final minute as Clive Woodward, the English centre, moved offside in front of the posts and Fenwick kicked the goal to give *Wales* victory 21-19.

Poor Woodward will be scarred for life but so too would have been the Welsh flanker Lewis who had similarly strayed offside minutes from time giving Hare the opportunity to kick what seemed to be the winning goal.

In both cases it is clearly inequitable that a fractional edging over an imaginary line should cost a side the match when other more serious offences go unpunished because of the range at which they are committed.

Mercifully, there was none of the acrimony of last year though Price seemed to go too far in his role of human canonball entering the mauls and rucks. The truth is that neither side deserved or earned victory and again the prize was far too great and the excitement of the match lay excusively in the tenseness of the closing ten minutes.

England's primary downfall was their lack of expected forward dominance. Cotton tore a hamstring early on and was replaced by Sheppard. Cotton was badly missed because Wales *wheeled the scrum effectively* and England might have been wiser to have left Blakeway on the tight head. In the line-out, where England again expected superiority, they rarely gained clean possession.

I think Colclough is a tremendous forward—as he shows in his absolute commitment in the second half—but he does some erratic tapping at the line-out. Scott was the most efficient forward here and worked two very successful movements with Beaumont and Colclough but last year's collectivism was missing. This was no fault of Beaumont but Uttley and Neary were badly missed.

The team has to live with these absences and the playing of two open side wing forwards did not really come off. It never has in the past and though Rafter and Cooke tackled well they were chasing shadows for much of the time. It must be said though, that England did very well to come back from 12—3 down in the first half.

The cumulative effect of Welsh forward play was that neither Smith nor Horton could direct the game in the same luxurious way as Brynmor Williams and Gareth Davies. *J. P. R. Williams* did not have to turn and while Brynmor Williams put the ball up whenever he was hemmed in Smith was usually having to clear in a desperate hurry and he did this well. England scored the better of the two tries but they also made the greater number of significant mistakes in a game where the minimum of errors was a basic criterion for success.

Wales scored their try after Wheeler had given the ball to Hare on the England line and instead of getting it away anywhere just to stop the game Hare gave Smith an impossible *task and Clive Davies scored.* Several touches were missed by Slemen, Dodge and Hare and one such miss led to Davies dropping a goal to restore Wales's lead.

When England entered Welsh territory their silly and fundamental errors — rather than Wales's constructiveness — caused a retreat. Good defence by Dodge, Wheeler, Hare and Carlton was vital to England's survival and Hare in a game of personal mixed fortunes scored all 19 England points.

With the game played to such a limited pattern it became inevitable that the back row's speed to localised breaks was a key factor. Here, Squire and Gareth Williams played predominant roles

There must be some changes in the Welsh team behind the scrum and I would not discount the exclusion of both centres and of J. P. R. Williams. Defensively he is still the master but in attack age has enforced its own special limitations.

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Monday January 19 1981

Propping up lame ducks

THE QUESTION of how far to go in propping up companies facing financial collapse is becoming a major source of worry to politicians, bankers and investors all over the world. Chrysler and Massey Ferguson are probably only the tip of an iceberg of smaller companies which are being preserved from liquidation by the leniency of their bankers, actively encouraged in some cases by central banks and the governments.

In most such situations bankers themselves are exercising their normal commercial discretion in renegotiating loan agreements, extending borrowing limits and otherwise treating their customers more generously than usual. Any competent banker faced with a client running out of cash will naturally have to use his judgement about the longer-term economic prospects and the underlying strength of the business. In a period of exceptionally high interest rates which force borrowers in effect to "repay" capital as well as interest to their bankers, it is particularly important for bankers to show flexibility.

Ultimate aim

There is a danger, however, that participants in rescue operations, especially where governments are involved, may in certain cases lose sight of the ultimate aim of supporting a company in trouble. This should be to ensure that the company's assets are, in the longer term, employed as profitably as possible. In this aim the interests of bankers and of national economies coincide, since it is normally only after a company has returned to profitability and become competitive that it will be able to meet all its obligations to the banks. The danger is that the banks, having been blamed in the past for being too precipitate in liquidating companies in trouble, may now be adopting an excessively cautious attitude to cases in which major restructuring would be desirable.

Preserving existing managements and corporate structures should never be an over-riding goal either of Governments or of bankers when they decide to help "lame ducks." The possibility that major sales of assets, the hiving off of operating subsidiaries into independent companies or even total liquidation would, in the long run, lead to the better employment of a company's assets is too often overlooked, particularly by Governments. In the case of Chrysler, for example, it is not obvious that the Carter Administration's decision to provide support, despite the stringent conditions attached to it, has been in the best interests of the American motor industry; the intervention may simply have postponed the inevitable break-up of the company.

Right course

If there is no clear evidence for supposing that a company will be able to stand on its own feet within a reasonable time, liquidation is often the right course. Governments which put pressure on their bankers to prolong the agony should be aware of the possibility that the viable parts of a business will be dragged down by the inefficient. The possible impact of Massey-Ferguson's financial weakness on Perkins, the British diesel engine subsidiary, is one example.

Successive British Governments over the past ten years or so have been too ready to come to the rescue of large companies and too reluctant to contemplate the short-term shock of receivership or liquidation—which may be the quickest and most humane method of ensuring that the assets are put to more productive use. Secure jobs for a smaller number of employees is preferable to a lingering decline. Even in today's depressed business conditions there are some encouraging examples of bankrupt companies being acquired and revived by new management.

Management

Many of the companies which are now facing a financial crisis are in this position because of their own management errors. It is arguable that the banks themselves are at fault through allowing these companies to become over-extended: their desire to retain valued banking clients may have deterred them from insisting on changes in management at an earlier stage. But while this argues for better industrial judgments on the part of the banks—and perhaps for the development of greater industrial expertise — the decision on how to deal with a financial crisis has to be taken on a commercial basis by those whose funds are at stake. There is no evidence that such decisions are better made by civil servants or Ministers than by bankers.

Time runs out for Mr Begin

THE COMPLEXION of the Middle East will almost certainly improve as a result of the Israeli Cabinet's decision yesterday to submit a Bill to the Knesset proposing a July election. Opinion polls have indicated an overwhelming victory for the Labour Party over the Coalition Government led by Mr. Menahem Begin, and the emergence of Mr. Shimon Peres as Israel's leader. The prospect of Mr. Begin's departure from the stage and the appearance of Mr. Reagan as U.S. President gives some hope of breaking the impasse in the peace negotiations process that has now been virtually deadlocked for a year. The pity is that Mr. Begin's Cabinet has opted for a July election rather than the earliest possible date, which would have been in May. It seems that the most unpopular Israeli Government in the nation's history is trying to extend its tenure to the limit, mainly with the intention of consolidating Israel's grip on the West Bank.

Peace treaty

Mr. Begin's only success of any significance was the conclusion of the peace treaty with Egypt in March 1979—and for that President Anwar Sadat should take a great deal more of the credit. Since then, the Israeli Premier's obsession with what he and his colleagues see as the biblically ordained right of the Jewish people to "Judea and Samaria" has made the achievement of a wider Arab-Israeli peace agreement a great deal harder to achieve, not least because of the ruthless appropriation of Arab land for Jewish settlement. At the same time the policies pursued by Mr. Begin's Government in the occupied territories and their heavy-handed implementation have been enough to sabotage the negotiations with Egypt on autonomy for their Arab inhabitants.

Any electoral benefits that Mr. Begin might have gained from the pact with Egypt have long been squandered, and the treaty has done nothing to achieve Israeli yearnings for peace with all the country's neighbours. Moreover, by alienating liberal opinion internationally Mr. Begin has left Israel even more isolated than it was in 1977. Although the historic agreement with Egypt has made Israel more secure and reduced the Arab military threat to negligible proportions, it has not alleviated the economic ills of the Jewish State.

The victory of the Right-wing Likud bloc in 1977 was based largely on hopes that it could tackle these economic problems and, in particular, reduce the rate of inflation. Mr. Begin's coalition has failed, to the extent that prices increased in 1980 by an average of at least 135 per cent and the inflation rate has now reached about 200 per cent on an annual basis. One third of the budget is now devoted to debt repayment and Israel is more dependent on economic aid from the U.S. than ever.

In July the Labour Party could well win an outright working majority. However, its chances of obtaining this would probably be destroyed if Mr. Moshe Dayan or Mr Ezer Weizman contest the next election with a new centrist party, as they may well do. The importance of this is that a majority of the 120 seats in the Knesset would enable Mr. Peres to do without the support of the hard-line National Religious Party for the first time since 1952 and give him the strength to take tough decisions.

The Labour Party is prepared for territorial compromise in negotiations, though it remains to be seen how many Jewish settlements it would be prepared to dismantle to obtain peace.

Jordanian option

It insists on the "Jordanian option," meaning that any Palestinian entity must be linked with the Hashemite Kingdom of Jordan. That is reasonable enough given the small size of the West Bank and Gaza Strip, as well as the existence of a Palestinian majority in Jordan.

But this approach looks and is academic at present and may remain so indefinitely because of King Hussein's refusal and inability (without wide pan-Arab blessing) to contemplate any such solution.

The Labour Party's greater flexibility, in contrast to Likud's intransigence, would presumably give more scope for Mr. Reagan to tackle the Arab-Israeli problem. Conversely, his pronounced sympathy for Israel may help reassure it about essential guarantees for its long-term security.

MASSEY-FERGUSON RESCUE

The company that had to survive

By Michael Lafferty, Banking Correspondent

"IF the rescue talks failed there would have been chaos," commented Mr. Victor Rice, Massey-Ferguson's chairman yesterday. He was talking less than 48 hours after Massey's 200-plus bank and insurance company creditors had reached agreement in principle to bail out the Canadian-based agricultural equipment multinational.

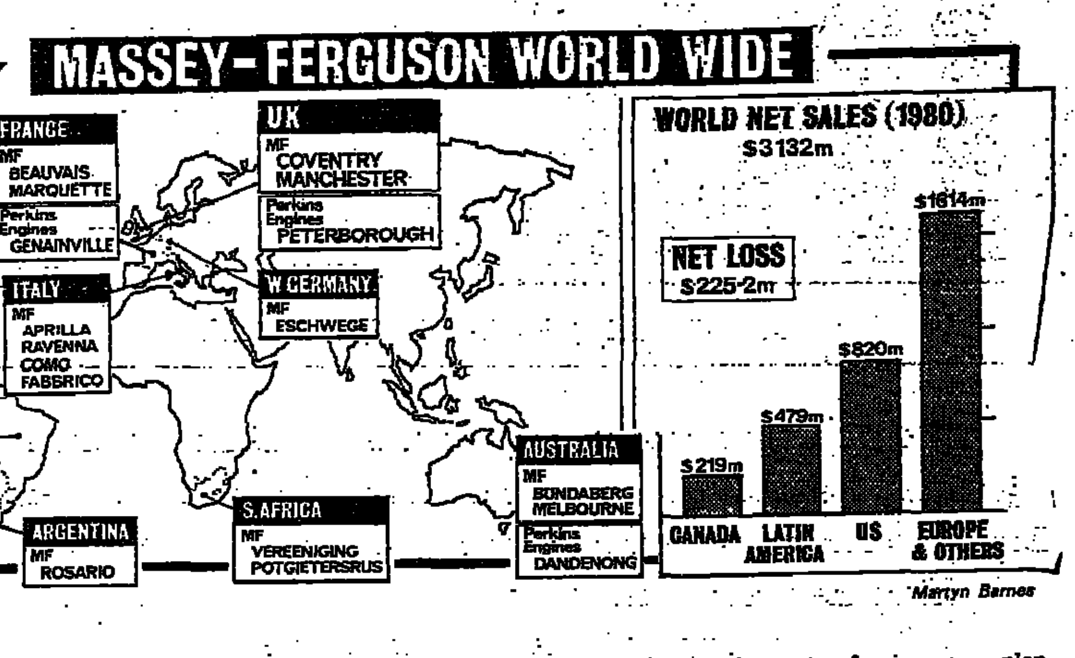
The news, which emerged late on Friday evening, came in the nick of time to save Massey from bankruptcy.

Nobody seems sure what such a bankruptcy would have been like, since no multinational of this scale has ever become insolvent up to now.

Now that it has been rescued, it must also be said that this could be the first multinational which as a result of financial difficulties has been able to persuade its main bank lenders to become major shareholders, possibly accounting eventually for around 25 per cent of Massey's equity.

Massey-Ferguson is already unique for several reasons. While it is based in Canada, its operations in several other countries are far more significant. The UK operations, for example, (where the banks will now own between 5 and 10 per cent of Massey) employ around 16,000 people and are the largest in the group. Canada, by contrast, accounts for only 6,000 employees.

Then there is a very large amount of inter-company trading within Massey. The UK Perkins diesel engine business sells around 50 per cent of its sales to other Massey-Ferguson companies, mainly in North America. So liquidation of of the UK companies, for example, would almost certainly have brought the whole group down.



A third factor which would have complicated insolvency proceedings around the world is that Massey-Ferguson has managed to borrow around $1½bn from banks without parting with any security. Without such security banks would have had no option in several countries (including the UK) but to force the local subsidiaries into liquidation.

The lack of any form of security for their lending could well have been one of the main reasons why the banks were willing to rescue Massey-Ferguson. Througout the rescue talks, which have been going on since last October, they were often reminded that their position would probably be far worse in the event of bankruptcy, than by supporting the bail-out.

The rescue package provides for the injection of substantial cash sums into Massey over the next two years or so, as well as the conversion of C$100m of debt into convertible preferred shares by Canadian Imperial Bank of Commerce (CIBC), the main group bank. The total funds involved amount to C$720m and new money will be provided in a number of different ways:

● The bank and insurance company lenders (other than CIBC) are to "forgive" interest with effect from December 1, 1980, of about C$280m. Instead, they will receive common shares in Massey, at a price of around C$7¼ each. The amount of forgiveness is set at 22½ and 30 per cent respectively of the banks' and insurance companies' lending as of the end of last October.

● CIBC will also subscribe for an additional C$50m of convertible preferred shares.

● Britain's State-owned Export Credits Guarantee Department will guarantee a further issue of C$30m of convertible preferred shares, which will be sold to the Canadian public. It is doing this because it cannot forgive interest on the £87m or so of lending which it has to Massey.

● The balance, of C$200m, will come from a private placement of convertible preferred shares in Canada, supported by a guarantee from the Federal and Ontario Governments. This part of the deal has not yet been completed, but Massey is confident that it will turn out all right.

As a result of the rescue Massey-Ferguson's balance sheet will be transformed. Within two years—the period estimated to be covered by the interest forgiveness plan—Massey's shareholders' funds will increase from the present figure of about C$420m to C$1,140m, if trading results in the intervening period are ignored.

Another important feature of the rescue concerns the banks' existing advances and credit facilities to Massey. Friday's agreement provides that these will remain unchanged for a period of three years, after which they may then be reduced in specified proportions over the following two or three years.

The full extent of Massey-Ferguson's predicament was spelt out to the bankers at the meeting in London's Dorchester Hotel last Wednesday. The patience of suppliers was rapidly running out, and without a deal there would probably not have been enough money available to pay the next payroll. It is now known that the supplier position was particularly bad in a number of countries, including Italy and the UK, where Lucas, for example, was on the verge of stopping deliveries.

This problem was exacerbated by the freeze on inter-company cash transfers which Massey was forced to implement since October. The first stage in relieving supplier worries about payment of their bills will involve the unfreezing of the intra-accounts next week.

The fact that Massey-Ferguson is so much of a multinational, without a nationality of its own, might well have worked against this rescue succeeding. However, it is now clear that the Bank of England took it upon itself to "encourage" Britain's banks to help out, while at the same time talking to central banks in several other countries.

But long before the Bank became involved Barclays Bank had assumed a highly unusual role, based on its position as Massey's lead UK banker. It took an intense interest in Massey's affairs around the world, and eventually became the main bank campaigning for the rescue scheme. This intervention took Barclays to see bankers in several countries.

While the banks of the world probably deserve praise for the manner in which they came together to bail out Massey-Ferguson, the affair has shown up major weaknesses in some banks.

The most glaring must be the position of CIBC, which by the end of last year had C$383m outstanding to the Massey group. This was more than 30 per cent of its own published equity.

A new plan—and new hope—for the future

By Hazel Duffy, Industrial Correspondent

IT IS not only Massey Ferguson which is breathing easier this morning. If the company had collapsed the British Government, which has carefully distanced itself from the recent negotiations, would have had to try to pick up the pieces and find some way of rescuing one of the key international companies operating in Britain. In many respects, indeed, Massey is more a British company than a Canadian one.

The redundancies which would have followed bankruptcy would have been substantial and could hardly have come at a worse time as the engineering industry struggles with the most severe recession since the war.

But the banks' action means that there is now more time to think about the company's future. And the plan agreed with them which gives the key Perkins Engines subsidiary a new and separate status, may make any future assessment of the group's British subsidiaries easier. The company itself says that it already has a strategy for the next 20 years.

In the middle of last year, Massey's senior managers closeted themselves away for five days to formulate a long-term strategic plan.

With the aid of outside consultants who had presented their view of the overall world economy up to the year 2000, they set about determining who, and where, will be buying tractors over the next 20 years. One key pointer, for example, is the prediction that by the year 2000, 80 per cent of the world's population will be living in developing countries.

The plan that emerged was explained to the group's leading bankers, and Mr. Rice says that it was the key to getting them to agree to save the group. Now that the "black cloud" looming over Massey for the past few years appears to have lifted, group executives can begin to implement the more positive aspects of Massey's plans.

The fact that Massey did not collapse is due, says Mr. Rice, to the banks "genuinely thinking that this company is worth saving. I know it sounds corny, but that really is the case."

A more cynical observer might say that the banks had little option, but it is interesting that the British Government left the Bank of England to jog the banks into finding a solution.

Sir Keith Joseph, the Industry Secretary, must think himself fortunate not to have become engaged in the cliff-hanging Cabinet gatherings which characterised the eventual rescue by the last Government of Chrysler's UK operations.

The importance of Massey's activities in the UK, however, is considerable. Although politicians find tractors and diesel engines are less glamorous than Chrysler cars, the arguments for saving Massey in terms of jobs and contribution to the British industrial base were very similar to those brought out in the hotly-debated Chrysler issue.

The British banks, at the prompting of the Bank of England, were anxious therefore during last week's discussions at the Dorchester Hotel—and the earlier round of discussions when the "interest-forgiveness" formula was first brought up—to ensure that Massey UK should be seen to benefit as a result of the rescue package.

Massey seems successfully to have resisted what Mr. Rice calls the "Balkanisation" approach of the banks, but it has been agreed that Perkins Engines will now have a separate legal and financial identity to that of Massey-Ferguson Holdings (which comprises all Massey's UK interests at present).

This means that Massey has now made it easier for an outside investor to take a stake in Perkins. Discussions have been held with several potential investors in Perkins over the years, including the National Enterprise Board which wanted to secure the future of the diesel engine sector in the UK, with the encouragement of the last Government.

Massey has always insisted, however, that it would not sell more than 49 per cent of Perkins, which in many respects holds the most attractive potential of all Massey operations. The possibility of finding an outside investor on these grounds could be remote—GEC Diesels, for instance, looked at Perkins about three years ago, but decided that a minority stake in a business which needs large capital investment was not an attractive proposition.

Perkins, in common with all the independent diesel engine makers, is having a tough time at present. Its new engine development must depend on the company being able to fix up joint ventures on particular engines, most obviously with BL but also in the U.S., which could then open up the possibility of getting an American company to invest in Perkins.

Massey's determination to hang on to Perkins was not welcomed by one or two of the major UK banks in the rescue agreement, and British Government officials might also have been more satisfied to see some other arrangement.

While Mr. Rice maintains that he favours the devolution of responsibility to individual countries—"the days of centrally-controlled multi-nationals are over," he says—his team still plots Massey's future in terms of a global strategy, and

Mr. Rice argues that the future of the group — and Perkins — is bright. A good deal of the rationalisation and tidying-up has taken place in the two and a half years since he took over. Employment worldwide has come down from 67,000 to 43,000, and the company says there have been "massive improvements in asset control, and divesting itself of marginal activities." To this must be added the strict stock control which Massey's financial straitjacket has forced it to take over the past 12 months.

Mr. Rice predicts a boom in North American farm machinery sales in late 1981-first quarter 1982, following the disastrously poor period which set in during the spring of 1980 and says his company is now in better shape than many of its competitors.

Massey's long-term survival, however, rests on ruthless attention to efficiency. The strength of sterling has already undermined the competitiveness of Massey's UK plants, which export worldwide.

One partial solution, says Mr. Rice, is to switch the purchase of components from the UK to overseas, and he predicts that 35 per cent of Massey's UK needs will be foreign bought shortly.

There is little doubt that Massey will not hesitate to take other far-reaching decisions as far as its UK operations are concerned as and when the need arises.

MEN AND MATTERS

Smith hammers, Bishop lands

A case of "win one, lose one" for the Stock Exchange trading floor, which has seen jobber Smith Bros take its enormous gold share business "upstairs" to its sophisticated new communications room, while Bisgood Bishop announces its entry on to the floor as a jobber in North American oil stocks.

Tony Lewis, the tough-minded chairman of Smith, says the London floor is "outmoded," "inhibitive" and even "obstructive" to an international business which must perforce be done by telephone. He sees the move from floor trading to six dealers equipped with telephone and telex as the only way to compete with major international dealers. A first step, perhaps, to pulling out of the Stock Exchange? "Nothing could be further from my mind," he asserts, stressing that his Australian mining finance house and other international dealings will stay bolted to the floor.

Lewis beefs, however, that the Treasury and Stock Exchange did not act years earlier to remove exchange controls and free dealers to compete in international markets. As a result the markets were lost, he says, never to return.

Over at Bisgood, a different view is taken by Rory Forrester, who has spent four months putting together a list of U.S. oil and energy stocks most actively traded in the UK. He talks of foreign business through London totalling twice the volume of business done in UK equities, and sees growth from the attractions of a strengthening dollar in 12 to 18 months.

All of this is, mind you, purely the jobber's "feel" for his market. Forrester disdains analysts—"all you need in jobbing is to know who said what about what"—and he did not even go to New York when picking his stocks.

One of the virtues of the London market which can encourage the sort of business which Bisgood wants to pick up is that dealings begin there before New York has opened. It is said, for instance, that canny German banks used this route a fortnight ago when Joseph Granville shouted "sell" and Wall Street tumbled. While Granville followers waited to offload when the Stateside markets opened, the Germans made the most of their five-hour advantage to sell in London.

Suite-talking

It was in an atmosphere of appropriate austerity that Canada's Massey Ferguson group celebrated its £250m rescue package at London's Dorchester Hotel ballroom on Friday night. Yes, the sounds of fizzing and popping echoed around the room when chairman Victor Rice announced "We got ourselves a deal, fellers." But it was Coca-cola, not vintage champagne, with which the moment was toasted. And I have granted my man on the spot permission to charge to expenses the cigarettes with which he furnished Rice during the nervous hours of waiting.

Fragile bond

Although gilt-edged stock certificates are not yet required to carry the words "Caveat emptor," investors in the Government bond market are only too well aware of the need to be prepared to change their minds at a moment's notice. Some of them have been taking this principle rather too far—somewhat to the Bank of England's annoyance—on new issues of stock.

In these decadent days, it is the hope of profit rather than any more patriotic instinct that impels people to buy gilt-edged. The main reason to apply for a new stock at tender is the hope that it will sell out and go straight to a premium. Stockbrokers used to have a pretty good idea—based on the applications they were handling—of the demand for a stock, and the whole thing was sometimes relatively easy.

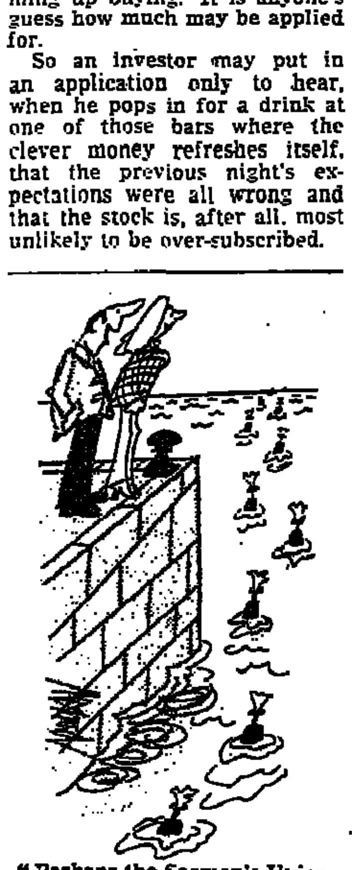
Now, though, the Bank of England no longer pays brokers commission on applications for new issues bearing their stamp, and the brokers have become much less interested in drumming up buying. It is anyone's guess how much may be applied for.

So an investor may put in an application only to hear, when he pops in for a drink at one of those bars where the clever money refreshes itself, that the previous night's expectations were all wrong and that the stock is, after all, most unlikely to be over-subscribed.

This is desperate news. But if he is bare-faced enough, he can go to the Bank of England (where they are still busy counting) and ask for his application back.

The Bank cannot refuse, since no contract between buyer and seller exists until the allotment letter has been sent out. And when a tender system is in operation it takes longer than ever to process the applications, so that the Bank is at risk to indecisive speculators for longer.

The Bank should probably not worry too much. After all, when the news finally gets round that new issues simply do not sell out these days, people may stop applying altogether.



"Perhaps the Seamen's Union are having a ballot?"

Back on board

The wheel has turned full circle for John Pattisson, once managing director of Dawnay Day, and more recently chairman-designate of RIT subsidiary Target Trust Managers until his surprise resignation takes effect next month.

He is to re-join the Board of Hanson Trust, which he left in 1974 after 10 years as a non-executive director. This time round, he is back charged with full executive responsibility for "strategic financial planning." Takeover spotting, in short? "A company that has grown so quickly has a number of people on the look-out for new opportunities," explains Pattisson. "My first task will be to catch up with what has been going on in the past five or six years."

Delayed action

"I know the chairman's getting a bit long in the tooth, old boy. But he can still make a snap decision—given time."

Observer

FINANCIAL TIMES SURVEY

Monday January 19 1981

INDIA

A WORLD TRADING PARTNER

India may have substantial reserves of oil. She may become a grain exporter next year and she has considerable industrial potential But the country's massive infrastructural problems will have to be solved before the current recession can be turned into the substantial growth of which India is capable.

Economic basic premises attacked

By David Housego
Asia Correspondent

INDIA HAS sources of strength *that many developing countries,* entering the 1980s saddled with massive oil import bills and shrinking export markets, would envy. She may have considerable reserves of oil off the west coast, and thus unlike Brazil or South Korea, stands a good chance of becoming a producer herself.

From being an importer of food grain in the 1960s, India has moved impressively towards establishing stocks of grain reserves and could next year become a grain exporter. Like China, she has a broad industrial base and a self sufficiency in industry which, however inefficient, gives her much independence of world trade. And she has a relatively small backlog of overseas debt which has contributed towards a high international credit rating as for the first time over the last 12 months she has become a significant borrower on the international capital markets.

But it is to the failings of the Government and the economy rather than to *any signs of good* fortune that Indians look today. Mrs. Gandhi was returned to power a year ago with a two-thirds majority in the Parliament, an unchallengeable dominance over her own Congress Party and probably more power than any Prime Minister has enjoyed since independence. Her massive victory reflected the desire for strong leadership and "a Government that works" which she promised the electorate in her campaign.

But her administration has not been a great deal more effective than the Janata Government it replaced. There has been little let up in caste or communal violence in Northern India or in the brutal thefts and killings that punctuate village and city life.

Grievances

Political agitation has increasingly shifted to the streets as powerful minorities—whether it be the Assamese protesting against the presence of foreigners on their soil, or the farmers of Maharashtra or the police themselves—have bypassed the established political process to make their grievances felt.

Mrs. Gandhi has failed to convey that sense of urgency in tackling economic problems and inflation that was expected of her and which she promised. Prices have remained high in part because of shortages that have resulted from the Government's failure to come to grips with the problems that have caused low industrial output.

The Cabinet is short on talent and experience, with Ministers lacking the authority to take initiatives themselves. Uncertainty in the administration has been exacerbated by *the massive transfer of* personnel that has taken place within both the Central and state governments. Parliament and the Congress Party—two familiar institutional landmarks of post-independence India—have lost much of their authority. *Lobbying by* pressure groups has increased and so almost certainly has corruption.

Mrs. Gandhi said on taking over last year that she had been left with an appalling economic legacy. In part this was because India was in the midst of what was probably the worst drought of the decade. But at the time Mrs. Gandhi—like most Indian and foreign experts—almost certainly underestimated the magnitude and persistence of *the country's infrastructural* problems.

As a result of inadequate investment and poor management in the past, India has been caught in a vicious circle of coal, power, rail and steel shortages that exacerbated each other and transformed the mini-industrial boom of the 1976-78 years into a recession.

There are no quick and easy solutions to the complex problems of ageing equipment, violence and theft in the coalfields *of Bihar and Bengal: to the* union rivalries that have crippled power deliveries from the Damodar Valley Corporation, the main power supplier for the eastern region: or the shortage of wagons, congestion of freight traffic and overmanning that have all posed trouble for the railways.

Bottlenecks

India, like China, has run into the bottlenecks of a continental economy in which there are immense difficulties in co-ordinating across vast distances local requirements for power, steel, coal, heavy engineering equipment, manufactured goods and foodgrains.

Disenchantment runs deeper than short-term disappointment with Mrs. Gandhi's performance. Mr. L. K. Jha, a much respected Indian administrator who has held most of the senior posts in the Indian Civil Service as well as being a former Governor of the Reserve Bank and Ambassador to Washington, contrasts in a thoughtful new book the present mood with the "spirit of high adventure and profound confidence" with which India embarked on its post independence development programme.

The disenchantment, he says, follows "three decades of planned development during which the people had put up with great hardships and high taxation in the hope of a better future," and adds that "what we are passing through, in effect, is not just a bad patch in our economic progress but a deeper social, political, and moral malaise, the seeds of which lie in the malfunctioning of the economic system as a whole."

One aspect of this is the enormous capital investment that India has made, particularly in the public sector: but it has got a lower rate of output from its capital than almost any other country in the world. Savings in India as a proportion of gross national product have climbed to 24 per cent, which is staggeringly high for such a poor country (Japan and Taiwan, also high savers, have achieved about 30 per cent) but the average annual growth in output has never risen for any length of time beyond a meagre 3.5 per cent—and last year turned negative.

Mr. Jha also reflects increasingly widespread doubts about the premises on which the economy has been managed. Arguing for a reappraisal, he says that a major preoccupation of successive Governments has been with attempting a more equal distribution of wealth, with controlling inflation and with preventing a concentration of economic power in the hands of the larger industrial houses.

This has resulted in an increasingly complex system of controls most of which have operated to restrain initiative: particularly by the private sector. "There are plenty of levers to stop action," he warns, but "relatively too few to push things forward."

Sanjay Gandhi would have expressed it differently but felt much the same. It was his impatience with the bureaucracy and the slow pace of change (probably shared by his mother) that both touched a chord with frustrated, unemployed youth and which also made him such a frightening phenomenon.

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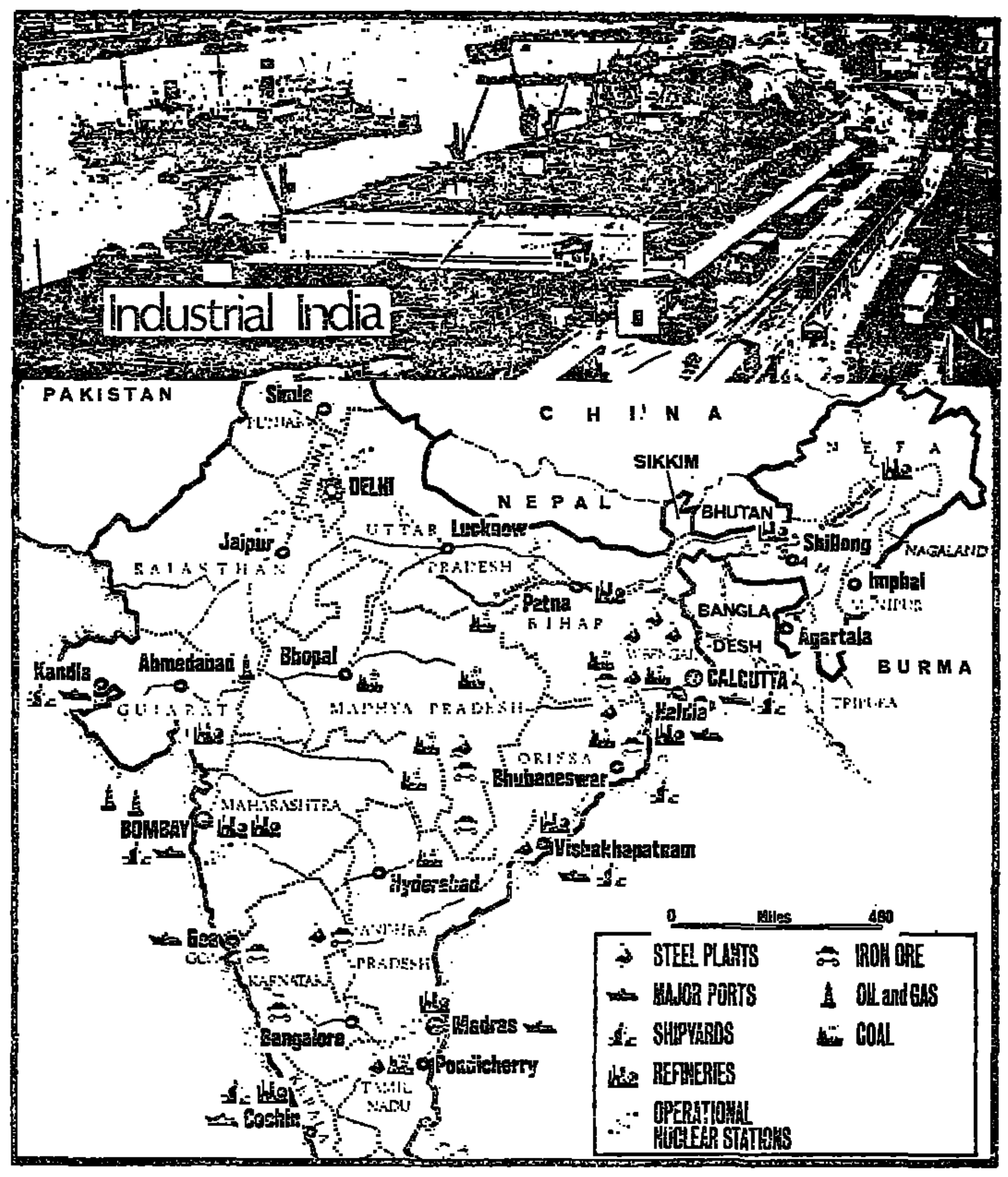


CONTENTS

Dominated by its central figure

POLITICS

KEVIN RAFFERTY

JUST OVER a year ago Mrs. Indira Gandhi returned triumphantly to power as Prime Minister of the world's largest democracy. In Parliament and in party politics today she still reigns supreme, no other politician can touch her, but such is the moth-eaten state of India's democratic trappings that she is being challenged from outside the system.

This is not happening through the defiance of parliament by the regular Opposition parties—the opposition is disorganised and incoherent. Nor, in spite of some foreign predictions, is the army yet showing anxiety for power, though it has been used to restore the flow of oil from Assam and to do police work in other civil disturbances. The challenge comes from disgruntled and increasingly vocal pressure groups who have, in the last year, shown their willingness to bypass the traditional ways and institutions as these seem incapable of meeting their demands.

Blockaded

In Assam, in the sensitive north-eastern region, students *effectively blockaded* the state for months. In November the army moved in to restore the flow of oil. But, despite having lost control of the oil supplies, as 1981 opened the students were virtually an alternative government, holding the Assam civil administration at an impasse. They were protesting against the presence of "*foreigners*" in the state, referring to migrants who had crossed from Bangladesh both before and after that country's independence. Their movement was also a demonstration against the creaming off by non-Assamese Indian nationals, especially Bengalis, of the best jobs in the state.

Then, in November 1980, farmers in Maharashtra showed their contempt for the normal political processes by blocking roads and immobilising cross-country traffic in an effort to get higher prices for their cash crops. The farmers' agitation threw the regular politicians into turmoil. Opponents of the Chief Minister within the ruling party loyal to Mrs. Gandhi tried to use the farmers' demonstration against him. The Chief Minister tried to crack down hard. Opposition politicians scrambled to climb on to the farmers' bandwagon but were repulsed.

The stir in Maharashtra was *not an isolated* one as farmers in Tamil Nadu, Karnataka and Andhra Pradesh in the south, and in Gujarat, also made public their feelings in the latter half of 1980. Yet the farmers have been one of the most wooed and pampered groups, with state governments vying to excuse land revenue dues, writing off loans and *omitting to* collect charges for electricity and irrigation.

The old-time politicians continued in the same way, almost oblivious of the new challenge. The Congress is Mrs. Indira Gandhi. Dr. Jagannath Mishra, Chief Minister of Bihar, a state of 60m people, said in a recent interview: "There is no leadership of Jagannath Mishra as an individual. Everything is of Mrs. Gandhi. In the nation and the party, except Mrs. Gandhi, nobody has anything. She is the main powerhouse and everybody in the party derives strength from her."

This was apparent at the meeting of the All-India Congress Committee in New Delhi late in the year. It was largely a struggle for sycophancy.

Dilip Bobb commented in the magazine *India Today*: "The session bore a startling resemblance to a kindergarten class. While the teacher was present, each one vied with the other to present her the biggest and juiciest apple. While she was away, they *thumped their* desks, threw paper planes and chalk at each other or merely snoozed. Few of them bothered to read the agenda papers and resolutions circulated during the session. The party members have long since accepted the fact that they are faceless ciphers with no mass base and no independence. Their collective survival depends solely on the whims of Mrs. Gandhi. Mrs. Gandhi herself was well pleased with the session and announced: "This has been a very successful meeting."

The biggest political change in the past year has been the death of Sanjay Gandhi and the eclipse of the youth congress wing loyal to him. At previous All-India Congress Committee meetings youth members had dominated proceedings, but this time the pillars of the movement and friends of Sanjay Gandhi stayed away or stayed silent. When Ghulam Nabi Azad, the new youth congress president, asked to speak on one resolution, Mrs. Gandhi declared: "If he wants to speak for two minutes he can come forward."

Controversy continues over who will follow Sanjay Gandhi as Mrs. Gandhi's favourite and potential successor. The Prime Minister's elder son Rajiv is now billed as the front runner, perhaps because the ambitions of Sanjay's widow, Maneka, and her mother were too naked for Mrs. Gandhi's security.

Rajiv Gandhi also won paeans of praise and rounds of applause from the congress Indira faithful. But he seems reluctant to assume the mantle of crown prince in spite of the numbers of retainers ambitious for him. *He is a more quiet and unassuming man*, "much more likeable and intelligent" according to an old schoolfriend. Rajiv Gandhi has just undergone conversion training so that he can fly Boeing 737 aircraft for Indian Airlines instead of the Arvos he was flying. This is taken as a further indication of his unwillingness to plunge into the cut and thrust of politics, though some commentators say that when he is sure that Sanjay's hoodlum friends have been ousted from reach of power he will reconsider.

Isolated

The death of her son and chief support left Mrs. Gandhi more lonely and isolated. It helped reinforce a ruling philosophy in which loyalty is counted the supreme and overriding virtue, not ideas or administrative ability or integrity. Mrs. Gandhi herself started the trend. She split the Congress party in 1969 and again in 1977, claiming on each *occasion that* she was the true party and those against her the usurpers. She also began to enunciate notions of "committed democracy," meaning loyal acceptance of her wishes.

The public emergence of Sanjay Gandhi merely accelerated these tendencies, as well as adding a sometimes thuggish force to them. Early in 1980, *after* the election victories, he had a key hand in choosing cabinet ministers and chief ministers in the states, in shifting senior policemen and permanent secretaries in ministries and inducting his friends, many of them with only minimal political experience, to high places. Thus did the Indian National Congress (Indira) *come* to look less for support from its roots than to commands from its head.

According to Ramnath Goenka, chairman of the *Indian Express*, the country's largest-selling newspaper group, the system worked to an extent while Sanjay Gandhi was alive. "He used *Goondahs* (thugs) to do his bidding and he was able to pay them *off and* keep them under control. But she is stuck with the *Goondahs* and does not know how to bring them under control. She cannot embrace the *Goondahs*, she cannot do without them."

Mrs. Gandhi has disappointed even her friends by her lack of performance. "She had the country at her feet," commented one academic with no particular political party commitment.

"The country was tired of the squabbling old men of the Janata and gave her a huge majority in Parliament, much larger than the 43 per cent share of the popular vote. But we are still waiting for her to make use of it." Ministerial posts remain to be filled, and the Government has not got to grips with the economic problems facing India.

The general quality of the cabinet is reckoned to be poor. Mr. R. Venkataraman, the Finance Minister, gets good marks for ability and honesty, but even the economic policy, with India moving towards its biggest balance of payments deficit, remains uncertain. Industrialists think they can see signs of liberalisation, but socialist slogans are still being used to club opponents. Few other ministers, with the possible exception of Mr. P. V. Narsimha Rao, Foreign Minister, carry much weight, though Mr. Pranab Mukherjee, the Commerce Minister, has substantial influence on policy.

"In Nehru's day there were a number of giants on the political scene," said Dr. B. S. Minhas, leading economist who resigned from the planning commission during Mrs. Gandhi's previous time in power, "men with whom one could discuss ideas. But these leaders are devoid of intellectual ability. They are bargain hunters and fixers." Mrs. Gandhi herself is more aloof and less accessible to men who might have ideas. Loyalty does not invite questions.

The Government has hardly been hampered by the Opposition, which is numerically small, yet fragmented, an opposition of bits and pieces. There are three Janata parties, many of the congress would like to join Mrs. Gandhi, and the middle-class Peasants Party of former interim Prime Minister Charan Singh has faced three splits in the past nine months.

At the turn of the year, the Bharatiya Janata Party, led by Atal Bihari Vajpayee, held a big session and rally in Bombay which won half cheers from some of the cynics, but even then the party was in several *minds* in trying to formulate a programme.

Some of the younger opposition leaders would like to see another attempt to form a fresh party, but with old men like Morarji Desai and Charan Singh still around and old feuds still bitterly remembered it is unlikely yet.

But for all the powers concentrated in her hands the Prime Minister seems ill disposed to accept responsibility for anything that is wrong with India. She has blamed the opposition for making things difficult. She throws back the blame for economic problems on the mistakes of previous governments. She accuses "foreign powers" of stirring up trouble in Assam. She pushed through a new preventive detention law, the National Security Ordinance, allowing the arrest of trouble makers at will. She started a debate on whether the presidential system was better suited to India's problems.

This is one of the puzzles of political India in 1981. It is hardly likely that Mrs. Gandhi could command more power under a presidential system. Distinguished lawyers like Nani Palkhiwala have talked learnedly of the better checks and balances of a presidential system. Mr. Palkhivala even suggested that under a presidential system state governors would have to be elected directly and thus would have more powers.

Nervous

It is unlikely that this is what Mrs. Gandhi has in mind. Though she talks of the need for commitment, the central bureaucracy is nervously waiting for her orders. Constant shuffles and changes and a hunger for promotion and security have eaten into the independent fibre of all but a few officials, just as the independence of the judiciary was undermined by promotions and transfers.

The presidential argument may be pulled out again if Government popularity starts to flag further. A single centrally managed election with the cry "Mrs. Gandhi or the deluge" could be an easier way of reviving her mandate than a multi-contest general election fought over 600 sprawling constituencies with many inferior candidates. Mrs. Gandhi remains the single national figure in India. In spite of her recent failings she is the most unpredictable yet gifted at political infighting.

Trevor Humphries

Mrs. Gandhi in the grounds of her New Delhi home

Economic premises under attack

CONTINUED FROM PREVIOUS PAGE

He was ready to cut corners to achieve his ends, to bully, to seek hapless officials and to employ gangsters from the underworld to intimidate opponents.

The Youth Congress that he led, and which before his death had become a powerful lobby in the Parliament he saw both as a personal following and a ginger group to activate the Administration.

But his ideas were simplistic and brought into disrepute by the methods he employed to carry them through, so that too often his projects—like the sterilisation and slum clearance programmes of the Emergency, or his dreams to build a popular car at Maruti—ended in failure.

It was to Sanjay that Mrs. Gandhi had effectively entrusted the management of economic and industrial policy. A major factor in the delays in domestic decision taking was the time it took for him to position his supporters in the Administration and then the gap left by his death. Mrs. Gandhi has had almost to begin again establishing links with the older generation of civil servants and Congressmen.

The Russian invasion of Afghanistan has also left her much preoccupied with foreign affairs. She has sought to strike a balance between India's disquiet at the Soviet action which has added further to the instability of South-West Asia and the risks of greater power confrontation there, and her belief that a major plank in India's foreign policy must be close relations with the Soviet Union as an essential counter balance to the long term threat from a modernising China.

Whatever the weaknesses in the economy, Mrs. Gandhi has also been building up India's armed forces as a symbol of Indian hegemony in South Asia.

There have been some faint signs of late of greater devisiveness in the management of the economy. Mrs. Gandhi has made some encouraging appointments in her own secretariat and in the power and steel sectors. She has summoned industrialists to see her about the problems of the infrastructure and has taken the chair herself in Cabinet meetings on exports and the infrastructure.

At the same time there have been some signs of a pick up in industrial production which officials have pounced on as signs of the long awaited recovery.

The Government has also pushed through rapidly a programme of oil exploration involving the participation of foreign oil companies. This is a significant departure for a country with such a long record of distrust of foreign multinationals. But there have been other important departures as well—in part initiated under the Janata Government—in India's readiness to borrow from the international commercial markets and the IMF to finance development *projects and help* it bridge the trade deficit caused by the steep rise in oil prices.

It is the strong possibility that India will find oil offshore, coupled with the scope there is for cutting back on imports of steel and vegetable oils through greater domestic production that gives India a far less worrying problem of adjustment to higher oil prices than many large developing countries.

Pressure

On official figures, India will need some $3.5bn a year in overseas financing in addition to aid to cover its basic balance of payments deficit during 1984-85 when the trade deficit is at its peak—not an unmanageable amount. But there will be strong pressures on Mrs. Gandhi as well to resist this level of borrowing or a drop in the foreign exchange reserves by cutting back on capital goods imports. By then, Mrs. Gandhi will be weighing her decisions in the light of the run up to another general election.

At the moment, India has no alternative leader to Mrs. Gandhi. In terms of day-to-day management all major decisions still tend to land up on her desk. A number of key cabinet posts remain unfilled. She shows no sign of speeding up or improving the efficiency of Government business by devolving power on Ministers or advisers with the strength to take initiatives themselves.

Her distrust of potential rivals runs deep—dating back to the splits in the Congress Party in 1969 and through to the desertion by colleagues during the latter days of the Emergency and after it.

She has found no substitute for Sanjay. Her eldest son Rajiv, while becoming more involved in administration, seems to be pressing on her the devolution of power she has so far resisted.

She has talked recently of establishing a presidential system of government. A case can be argued for creating a stronger executive along the lines established in France or Sri Lanka. But because of the support it was given during the Emergency by Sanjay and the then Defence Minister Mr. Bansi Lal, it is associated with a more authoritarian form of government.

Mrs. Gandhi in any case has already the immense power that derives from her strength in Parliament, the Congress Party and the country. She has also added recently to it by the Internal Security Act which provides for preventive detention of up to one year.

Additional power of its own will not solve the problems of the coal or steel industry, revive economic growth or create jobs for the 20m now reckoned to be unemployed.

"Garibi Hatao" (remove poverty) was the slogan with which Mrs. Gandhi embarked on the 1970s. With the pressures of population and poverty growing it is still as relevant 10 years later.

* *L. K. Jha: Economic Strategy for the 80s: Allied Publishers Private Ltd., New Delhi.*

Official optimism fails to overcome financial gloom

ECONOMY

K. K. SHARMA

THE PALL of gloom that periodically hangs over the Indian economy has not yet lifted after the disastrous 1979-80 year when national income fell by nearly 4 per cent.

Despite the favourable monsoon in 1980 and the improvement in agriculture that is expected to prop up the gross national product and ease the price situation, there are too many imponderables and danger signals to give rise to optimism.

Indeed, despite the official claims that the economy has crossed the hump and marginal improvements in some areas, what is really in progress is a holding operation.

This will probably continue until the international and domestic constraints on the economy are ironed out. The major factor that has transformed short and long-term prospects is the substantial change in the terms of trade against India because of world oil prices.

Oil imports now account for more than 70 per cent of export earnings. They are the main reason for the fall in foreign exchange reserves to around Rs 46bn (about $6.8bn) after a continuous rise for nearly five years.

Not excessive

The reserves position is not as yet critical. Indeed, it can be argued that the fall of around Rs 14bn (around $1.8bn), if borrowings from the International Monetary Fund of Rs 8bn are not taken into account, is not excessive.

Oil and petroleum products have had to be imported to make up the loss of around 3.5m tonnes of crude a year *because of the agitation in Assam*. If these imports had not been made, the reserves may well have remained constant and could have been taken as a pointer to the resilience of the balance of payments situation.

The fact is, however, that the Assam agitation has affected the reserves position at a time when the trade deficit is expected to reach a record Rs 40bn in 1980-81. The grim balance of trade position is largely as a result of oil and other imports and a slower growth rate in exports than the targeted 10 per cent. The long-term payments prospects are, therefore, distinctly bleak.

The Government may well find it difficult to overcome the expected $3.5bn annual gap expected within four years without resorting to further borrowings from international institutions and capital markets if the development process is not to be halted by the shortage of external resources.

This prospect is not considered undesirable, nor is it officially frowned upon now that policymakers are not averse to looking abroad for grants, aid or loans from any source. But there is a growing recognition of the need to boost exports if the country is not to become excessively dependent on foreign sources and is to avoid cuts in imports of raw materials and capital goods that would certainly retard industrialisation.

At present, indications that exports will rise to the required high level are not evident. This is because the strains on the economy are all too visible. If the growth in exports is to come from increased industrial production, the prognosis is still gloomy. The Ministry of Industry has claimed that there was a 7 per cent rise in production in November and a 10 per cent rise in December 1980, compared to the same months in the previous year and this is possibly a hopeful sign.

But the fact is that industrial production has not risen to the extent thought possible earlier in the year after the monsoon proved to be bountiful. Until the second quarter of the financial year, industrial production was running well below even the previous year's poor performances. The improvement in the last two or three months is unlikely to make a material difference. By the end of 1980-81 no more than a rise of 4 per cent in industrial production is expected over the *previous year's sharp drop in* output.

The reasons for this are that the infrastructural constraints that plagued the economy in 1979-80 have not been removed. The crippling power shortage improved only marginally after Hydel reservoirs were filled by the 1980 monsoon, but poor generation from the thermal and nuclear plants partially negated the gains. Power supply is not expected to rise by more than 10 per cent in 1980-81 and will thus remain a major limiting factor on production.

BASIC STATISTICS	
Area (sq miles)	1.27m
Population (1979)	650.98m
GDP	Rs 963.40bn ($117bn)
(Financial year 1978-79)	
Per Capita	Rs 1,432 ($184)
Trade	
Imports	$10.153m
Exports	$365.8m
(1979-80 Fiscal year est.)	
Trade with UK (1979)	
Imports	£455.6m
Exports	£365.8m
Currency	£=Rs 18.78
	$=Rs 7.7828
Foreign exchange reserves	$5.843bn in July 1980

The poverty of rural life at Mullickpur, half an hour's drive from Calcutta. Right: Street traders in front of the Banque Nationale de Paris in Stephen House, Calcutta

The power crisis is partly due to the vicious circle the industry has been caught in by the failures in coal production and railway movement, the two points which are constantly holding up attempts to improve infrastructure.

Coal production has risen only marginally to 109m tonnes, but its quality remains doubtful while its transport remains hampered by the poor performance of the railways which are burdened by as many as 18,000 "sick" wagons and whose equipment cannot be improved in the short run.

Compared to the previous year, only the labour situation has improved because of the remarkable fall by nearly 300 per cent in man-days lost, although productivity has not risen at the same speed.

The redeeming feature is higher agricultural production, although this should be qualified by the fact that it was almost entirely due to the good monsoon and underlines the country's continuing dependence on weather. The improvement was also *limited to food-grains* which are expected to reach a record 132m tonnes or more, which is 17 per cent higher than the revised figure of 107m tonnes of the drought-hit year of 1979-80.

This has bolstered the food stocks again. These should reach a safe 18m tonnes after the winter procurement is over. If all goes well, India may even export 1m tonnes of foodgrain in 1981-82. This will be a real breakthrough and will help close the trade gap, although it remains to be seen if food exports remain a permanent feature and whether they will be politically acceptable when a large part of the population is at near starvation level.

Flattening

But the non-foodgrain production continues to be erratic, with only an improvement in sugarcane. There is no sign that the heavy edible oil import bill will be eased because of better domestic production. Certainly the fertiliser consumption level remains low at 5.3m tonnes, just slightly more than in the previous year, and must give rise to doubts about the projected foodgrain production figure of 132m tonnes.

Nor is the price situation comfortable. Inflation has, in the *past two or three months, shown* signs of flattening out and it is possible that the financial year will end with an annual rate of just 12 or 13 per cent. This is better than the 21 per cent registered in the previous year but is still high (although it is true that it is partly beyond the control of the Government since much of it is imported because of world oil prices).

Prices have also been kept in check because money supply had risen by only 8.8 per cent until November compared to 10.2 per cent in the same period of previous year. But the budgetary deficit is certain to be far more than the Rs. 14bn anticipated by the Finance Minister in his final Budget presented *last June and this is not a good* augury.

The budgetary deficit is an indication of the obstacles that Finance Ministers and Government have always faced in taking much-needed but politically-difficult decisions. The length of the Assam agitation—which is costing the country as much as Rs 20m a day, quite apart from its impact on the balance of payments—could not have been foreseen but critics feel it should have been brought to a halt by political action if only because of its repercussions on the economy.

Equally, the question of *reducing the budgetary burden* of the subsidies such as those on food has not been firmly tackled: the pressure of the farmers' lobby has resulted in higher prices of agricultural gonds despite the decision to resist the demand for the rise. The pricing policy for products of the public and private sectors is also a matter of much disquiet. Difficult but necessary decisions could lead to the increase in savings and investment beyond the current 23 per cent of the GNP.

In the short run, given suitable weather conditions, the economy can be pulled out of its stagnation by resolute political decisions of the kind that, for instance, have been taken in the past few months on industrial and trade policies.

During the current year, the Government hopes for a 5 per cent rise in GNP, but this is a misleading figure because the nominal increase comes in a good monsoon year and after a year when national income actually dropped substantially.

The Government has set its sights by aiming at an average growth rate of 5 per cent during the current Sixth Five Year Plan period but, if the current year is any indication, the performance is not likely to be much better than the average of 3.5 per cent annual growth that the economy has registered during the past three decades. The world situation is hardly helpful at a time when domestic economic indicators are not exactly hopeful.

MERCHANDISE TRADE BALANCE
(Rs bn)

	1977-78	1978-79	1979-80 (prov.)	1980-81 (est.)
Imports	60.2	68.14	82.31	113
of which oil	16.0	17.0	33.0	55.0
Exports	54.07	57.26	59.98	68
Total	114.27	125.4	142.3	185
Trade deficit	6.13	10.88	22.33	45
Reserves	45	52	52	49

INDIA'S MAJOR TRADING PARTNERS
(Fiscal Year 1978-79)

	% share of India's exports		% share of India's imports
U.S.	13.4	U.S.	11.1
Japan	10.4	W. Germany	9.2
UK	9.2	Iraq	8.6
USSR	7.2	UK	8.3
W. Germany	4.8	Japan	8.5
Belgium	4.1	USSR	6.9

Source: Government of India Economic Survey, 1978-80.

Government reappraises attitude to foreign business

TRADE POLICY

DAVID HOUSEGO

INDIA FOR long was not on the regular international itinerary of foreign businessmen and bankers. But the cavalcade to New Delhi over the last 18 months of trade missions from the UK, France, Germany, Japan and other Western nations (not to speak of the Eastern bloc), and backed by representatives of major overseas banks has been unprecedented.

The change reflects a shift by India towards a more open trading and industrial policy. But how far Mrs. Gandhi's administration is willing to go in this direction depends on difficult judgments about the manageability of a large trade deficit and the risks of borrowing abroad.

Several factors have brought about the change. The previous Janata administration responded to shortages of key commodities like sugar, cement, edible oils and coking coal by liberalising imports. This was rapidly extended to capital goods that would give India the additional capacity to produce those items in short supply.

At the same time the spurt in industrial output that took place over the three years 1976-79 revealed the weaknesses of the country's infrastructure. It became clear that in a whole range of industries—coal, power, railways steel, oil, petrochemicals, fertilisers and aluminium — a large and rapid programme of investment was needed that was beyond the resources of India's own capital goods sector and beyond the Government's immediate financial means.

Both the Janata Government and Mrs. Gandhi's administration began to look to foreign contractors and to consider, what was for India, the novel approach of turnkey projects undertaken by foreign companies and financed partly by overseas borrowings.

The most striking result of this reappraisal was the award earlier this year to Pechiney of France of a $2.5bn contract for a new aluminium complex with, as part of the package, the raising by India of a syndicated commercial credit of $680m — the largest in Asia last year.

In the other areas, where competition for contracts among international suppliers is fierce, the Government is still studying foreign offers.

Slipping back

Parallel with the concern over extending the capacity and upgrading India's basic industries was the recognition that the earlier emphasis given to self sufficiency and import substitution had resulted in key sectors of Indian industry technologically slipping behind. This view was expressed in the recent report of the Tandon committee on India's export strategy in the 1980s.

The committee commented that "there is a general feeling, that bears careful examination, that where in the 1950s and 1960s our technology was advancing close to the world, today the gap has widened." The gap is most obvious in instances like the motor car industry, where there has been no change in models or design for about 20 years. *But the lag is most important in areas where India is seeking international competitiveness to promote its manufactured exports.*

Finally the shift in attitude has been in response to the belief that Indian industry has for too long been sheltered from international competition by protective tariffs and that foreign pressure would be an incentive to improving quality and lowering costs.

Not surprisingly some of the strongest objections to this aspect of the more open door policy have come from within the manufacturing sector itself on the argument that imports would displace domestic output and jobs.

The new initiatives towards *liberalising trading policy took* place against the background of the ample foreign exchange reserves of recent years. To overestimate their importance would be misleading as trade only accounts for 5-6 per cent of GNP, and in a large continental economy such as India with domestic demand the main stimulus to the economy, that ratio is unlikely to change significantly.

But the sharp deterioration of the trade deficit this year as a result of the increase in oil prices has prompted second thoughts about the policy. This *is by no means the first time* that a foreign exchange crisis has jolted Indian plans.

In the 1950s, the Government had to cut back on capital goods imports when aid receipts did not match its ambitious investment programme. In the 1960s, a succession of bad harvests and *hence the necessity of large* food imports, prompted restrictions again. In the 1970s, India responded to the first oil crisis by an expansion of exports that averaged 25 per cent in value terms between 1973-77 before falling back to 7 per cent between 1977-80.

In the present circumstances it is not clear with what mix of measures the Government will face the widening trade deficit. In raising $1bn from the IMF last year and close to $1bn in syndicated commercial credits, it has shown that it is far readier than in the past to look to overseas borrowings to bridge the balance of payments deficit.

But India still shares many of China's fears about foreign indebtedness. Officials however are working on the assumption that when the trade deficit is at its expected peak in 1984-85 they will need to raise an additional $3.5bn a year beyond what is currently expected in aid. Much of this they hope to get through OPEC assistance.

Exploration

The government has also embarked on a major programme of oil exploration involving—which is proof of the urgency being given it—the participation of foreign oil companies. This seems likely to be followed up by other attempts to reduce the import bill by, for instance, more intensive production of edible oils.

But almost certainly there will be some squeeze on capital goods imports and on the large investment projects in the pipeline. In addition to the foreign exchange constraint, there is pressure from the large public sector engineering units that more equipment orders be placed indigenously to utilise their present surplus capacity.

Compromises are possible in this area along the lines of the technical collaboration agreement that the Heavy Engineering Corporation at Ranchi recently signed with Ransomes and Rapier. This involves the British company in supplying the initial orders for walking drag lines for the coal industry but HEC then taking over the *manufacture*.

As part of its borrowing from the IMF, the Government is committed to a liberal imports policy for capital goods until March. But even if there is some tightening after that—or even the postponement of orders that might otherwise have been placed—there seems no question of a return to the type of restrictive import policy that held down the growth of the economy in the late 1950s.

At the same time, Mrs. Gandhi has demonstrated the importance she attaches to a sustained programme to increase exports by the unusual step of chairing the Cabinet's committee on exports herself.

The Tandon report both outlined the magnitude of the task involved and produced some fascinating data on India's export record to date. India's share of world exports dropped from 2.9 per cent in 1938 to 0.53 per cent in 1978. As a proportion of GNP exports in India amount to 5.8 per cent, as compared with 9 per cent for Pakistan, 8 per cent for Brazil, 32 per cent for South Korea, 20 per cent for the UK and 6 per cent for the U.S.

Recent Government initiatives to promote exports include allowing companies exporting 100 per cent of their output the relief from import duties available to companies in the two export zones: relaxing restrictions on capacity expansion for large industrial houses if this is directed towards exports; and the setting up of an import-export bank.

Initiatives

The snag is that none of these tackle the major obstacles to exporting—which are the bottlenecks holding back the rest of the economy.

In any case, over the medium term the private sector is concentrating its energies on expanding domestic sales where competition is less. It is an exasperating fact for industry that unlike five years ago there is enormous pent-up demand in the economy as a result of rising agricultural incomes, remittances from Indians abroad and "black money" that has dodged the tax authorities. Industry has been unable to meet this because of the familiar vicious circle of coal, power and steel shortages.

What the private sector wants most from Mrs. Gandhi is the removal of these problems. It is relieved at her return to power in that this has removed the active hostility towards industry of the former Prime Minister, Charan Singh, and modified the emphasis of the Janata administration on the small scale sector and rural development.

Mrs. Gandhi has shown herself to be more sympathetic to the large industrial houses and to foreign investments as well. Indeed, seeking the participation of foreign oil companies in offshore exploration and encouraging producer states to invest in India mark significant shifts in policy.

The official statement of Mr. Charanjit Chanana, the Industry Minister, of the new administration's industrial policy added little of significance to the generally more favourable climate towards industry established by Mrs. Gandhi's return.

A further group of 19 major industries have been allowed an automatic 25 per cent expansion of capacity over the next five years: production in excess of licensed capacity has been permitted in certain cases: and further encouragement has been given to companies to upgrade their technology.

The right to increase capacity automatically will be of more importance when companies are able to use their existing capacity to the full and investment picks up again. More immediately welcomed has been that the Government has relaxed and speeded up licensing procedures for industry.

But the jungle of regulations that an industrialist still faces in importing, exporting or trying to invest and upgrade technology is still breath-taking.


The Dunlop tyre factory at Ambattur, near Madras, which employs 1,400 people on a 130-acre site. Right: Heavy Electricals (India) Ltd., at Bhopal, manufactures switchgear, electric motors, locomotives and turbines

INDIA'S TOP EXPORTING COMPANIES

		ITEMS EXPORTED	1979-1980 (Rs m)
1.	Engineering Projects (I) Ltd.	Turnkey projects: housing, defence, grain silos, chemical treatment plant, transmission lines, etc.	1063.60
2.	Bharat Heavy Electricals Ltd.	Boilers, valves, transformers, control gears and switchgears, motors, etc	850.00
3.	Tata Exports Ltd.	Steel engineering projects	551.27
4.	The Projects and Equipment Corp. of India Ltd.	Turnkey projects, mechanical equipment railway equipment, electrical equipment, textile machinery	357.146
5.	Mazagaon Dock Ltd.	Shipbuilding and ship repairing	237.725
6.	Gedore Tools (India) Pvt. Ltd.	Hand tools	183.959
7.	HMT (International) Ltd.	Machine tools, watches, tractors, etc.	143.00
8.	Crompton Greaves Ltd.	Electric motors, motor control gear, fans, transformers, etc.	119.644
9.	Kamani Engineering Corp. Ltd.	Transmission line towers, substation steel structures, ACSR insulators, accessories, shield wire	137.10
10.	Ashok Leyland Ltd.	Commercial vehicles, engines, automotive spares and components	94.12

Source: Association of Indian Engineering Industry.

Isolation among non-aligned places policy under stress

FOREIGN POLICY

K. K. SHARMA

WITH THE Brezhnev visit to India last month creating doubts about the direction of the country's foreign policy and the foreign ministers of the non-aligned group due to meet in New Delhi next month, there is currently in progress a heated debate on India's non-aligned status.

The Foreign Secretary, Mr. R. D. Sathe, says that non-alignment will continue to be the "sheet anchor of our foreign policy in the 1980s" but admits that the "concept of non-alignment" is difficult to define except in negative terms.

The truth is that India's non-alignment has become as equivocal as that of the entire group. It if finds that its "sheet anchor" has to be explained in negative terms, doubts must arise on whether the Government knows what the positive aspects of the policy are.

The problem is clearly the result of the changes in the world since non-alignment was conceived by Nehru, Sukarno and Tito—all figures of the past. This is, at least, now acknowledged.

The External Affairs Minister, Mr. P. V. Narasimha Rao, says that it is now a multi-polar world as distinct from the bi-polar world of the 1950s. "To maintain your non-alignment in this situation, it has to be a multi-polar response. This kind of advance to multi-polarity is inherent in the kind of difficulties which the non-aligned movement also faces."

Realities

India must now take into account not only the realities of the relations between the Soviet Union and the U.S. following the Afghanistan invasion and the breakdown of detente, but also its own national interests.

This was, in fact, recognised by Mrs. Gandhi some years ago when she allowed India's global role virtually to lapse and sought to follow more persistently its regional interests. This was possible then because the success of the growing ties with the Soviet Union lay in the strategic harmony between Russia as a super power and India as a regional power.

Afghanistan changed all that. It brought to the fore the economic compulsions of Indian foreign policy which now determine not only the relations with the Russians but also the rest of the world, including the Middle Eastern countries.

During Mr. Brezhnev's recent visit to India, Mrs. Gandhi made her point on the need for an early withdrawal of Russian troops from Afghanistan and the need for a political settlement there. The Russians simply ignored this by reiterating that unless the U.S. and Pakistan agreed to recognise the Babrak Karmal regime and ceased "interfering" in Afghanistan, the Soviet military presence would continue.

Key issue

Mrs. Gandhi argued her case strongly but, so deep were the differences with the Russians on Afghanistan, that the joint declaration which followed made no mention of the key issue that India fears has brought super power rivalry close to the country's borders.

With an eye on the non-aligned conference next month, it was made known however that the omission of Afghanistan in the Indo-Soviet joint declaration was the result of differences on the issue.

But the primacy of economic compulsions was also underlined by this. The Russians came bearing gifts and left behind generous agreements on more oil, more trade and promises that they would help Sixth Plan projects for which India lacks its own resources.

The Indian and Soviet economies had already become inextricably intertwined over the past two decades. This has now been reinforced by the dictates of the trends in the Middle East, the disarray of the non-aligned movement and the fears that the Reagan Administration will take the U.S. back to the Nixon policy of "tilting" towards Pakistan.

Equally revealing is the Indian quest for a share in the economic cake provided by the Middle East. This includes not only vital crude supplies which have been disrupted by the Iraq-Iran war, but also the need to win (as has been done with considerable success) contracts that will encourage the inflow of petro-dollars to help the country tide over the balance of payments crisis.

There has been, over the past year, a constant traffic of Ministers and officials from New Delhi to Middle East capitals in search of oil and petro-dollars. Next to the inevitability of the Soviet link, India's policy-makers find their options closing because of need to consolidate the traditional policy of keeping on the right side of the Arabs and the oil-producing countries.

This has lost for India the clout that it had during Nehru's time. Both on Afghanistan and the Iraq-Iran war, there has been repeated talk of "initiatives" that have yielded nothing except the exposure that India does not have the influence it had.

In fact, one commentator goes as far as saying that the "failure to coax Moscow to pull out from Afghanistan placed

CONTINUED ON NEXT PAGE

Hunger remains despite massive stockpiles of grain

AGRICULTURE

KEVIN RAFFERTY

THE HUNGRY shortage of food grains, which many gloomy economists predicted would haunt India for decades, is all but over. The successful survival of disastrous drought last year without imports testifies to the success story. The bags of grains piled high under store all over the land, to the extent of 14m tonnes of foodstocks, the biggest stockpiles in the world, underlines it. But there is still a long way to go and many problems to overcome before Indian agriculture gets anywhere near to its potential performance.

At one extreme, millions of Indians still face their daily problem of survival because they cannot get enough to eat. The bags of stored grain are not much comfort to the hungry peasant who has not got the money to pay for food nor the job to earn the money—and there are increasing millions of poor dispossessed peasants.

Pampered

At the other extreme there is the question of what to do with the agitating farmers whom most commentators consider all too highly pampered. They do not pay income tax but are determined to secure higher prices for their crops and to use the political muscle they are realising they have.

So far as the national accounts are concerned, India has saved foreign exchange on grain imports, but it is paying vast sums—$16bn this year—on importing edible oils. Progress in food grains has been matched in other crops. In cotton, too, India has the largest sown area in the world, but it produces less than half of the crops of the U.S. or Soviet Union. In addition, huge areas of the country are still awaiting their green revolution. Farming prosperity has been patchy, and the progress of the Punjab and Haryana has to be set beside the backwardness of Bihar and Uttar Pradesh, India's largest states.

Just as Western industry was spoon-fed on cheap Middle Eastern oil, so too was the modern agriculture of the Punjab fuelled by cheap and plentiful oil. Tractors, fertilisers, pesticides, have all become more expensive and the whole basis of energy-intensive farming has been tested and jolted by the rise in oil prices.

On the credit side, officials are confidently expecting another record foodgrain harvest this year after drought which reduced the foodgrain crops to just over 110m tonnes last year. The target this year is between 134m and 135m tonnes of foodgrains, or about 3m tonnes more than the previous record of 131.6m tonnes in 1978-79.

Good winter rains across the north have refreshed official optimism that all will be well, though some outside agronomists point to the much slower consumption of fertilisers after huge annual increases in its consumption of 20 per cent between 1976 and 1979. The more gloomy forecasts estimate that foodgrain output may be closer to 130m tonnes, of which rice will be about 55m tonnes and wheat just over 34m. For the future, the target for the end of the Sixth Plan in 1985 is that cereal production will rise to nearly 140m tonnes and pulses to 14.5m tonnes, showing annual increases of about 4 per cent.

Critics claim that the Government is always too optimistic, but no one really has any fears that India will face another national shortage of foodgrains such that it will have to resort to imports on the scale seen in the 1960s. Even if more modest increases in production are achieved, they should be enough to take care of a population now growing at a more gentle pace of less than 2 per cent a year.

The question increasingly being asked is whether India is maintaining too high a level of food stocks. The U.S., by comparison, keeps only about 4m tonnes at any one time. Even allowing for poorer communications and transport across the vastness of India, the country could probably manage with between 8m and 10m tonnes, which is about the amount for which there is proper covered storage.

A good deal of the existing foodgrain stocks may exist on paper only. Apart from the improperly stored grain which has rotted, there is evidence that the grain stocks are not being rotated efficiently and that some officials, if asked for grain, find it easier to take the nearest and probably the most recently piled bag. In the Punjab this month I saw large piles of bagged grain rotting because there was not even a tarpaulin for it.

The suggestion of food exports is a touchy one, likely to meet the immediate emotive response that why should India export when its own people go hungry?. Even with record foodstocks, however, millions of Indians go hungry; the feeding of all Indians is part of the more general economic problem.

Even in cereal growing India could still at least double its production. Dr. M. S. Swaminathan, the member of the planning commission responsible for agriculture and former permanent secretary to the Agriculture Ministry, mentioned a target of 240m tonnes of foodgrain production by the end of the century. It is certainly feasible, even if wishful thinking, to believe that it will be achieved. Indian grain production per acre is much less than half that of Japan or Taiwan. Yields in the Punjab are more than double those of states like Bihar, though the quality of farm land in the Punjab is not as good as in some other Indian states, full use has been made of irrigation, land levelling and consolidation and other modern techniques.

Potential

Rapid increases in irrigation alone provide a big answer to the change in attitudes from the gloom of the mid 1970s about Indian foodgrain self-sufficiency to the optimism of today. There is still potential for increasing irrigation as only about 50m of the 167m hectares total cropped area has assured water. Massive irrigation works are still being built, to the alarm of some economists who say that with capital output ratios of 12 and 13 it would be better to invest in smaller private tubewell schemes and in improving extension services which might take modern farming within the reach of more farmers.

In Pakistan one of the main problems of agriculture is the waste of water. Only about a third of the irrigation available is actually used on the crops. It is one answer to say that the present generation will instal the irrigation capacity and the next will learn to use it, but in the meantime the soil quality may deteriorate because of sloppy water management.

The success story of foodgrains has not been matched in other areas of agriculture. Edible oils are the prime example, where the import bill has soared as domestic production has not kept pace with demand. Additionally, with oils as with sugar, demand has increased more rapidly. There are solutions on hand. If Indian mills could crush the discarded paddy husks to extract oil much of the edible oil imports would not be needed. Japanese mills use the husks as a main source of edible oils, but this type of innovation has not been tried in India.

Sugar is another problem area. A poor pricing policy and the power of the sugar mills in the hands of industrialists have meant that India's sugar production has see-sawed and supply has quickly moved from scarcity to glut, pleasing nobody.

The quality of government decisions and the lack of efficiency in implementing them are also important factors in the farmers' agitations which have rocked state governments from the north to the south of the country.

The demands of the farmers are a highly controversial and political issue. Some people see the farmers as a well-off pressure group. Mr. M. H. Mody, in his presidential address to the Associated Chambers of Commerce and Industry in India, warned in December last year "The agricultural sector is no longer a passive element in the economy with prices tumbling with a glut and rising with scarcity. Through continuous pressure, support prices have been raised for agricultural products. The recommendations of the Agricultural Prices Commission have been repeatedly set aside. Hidden subsidies and direct subsidies in the form of lower prices for fertilisers, lower prices for electricity and other agricultural inputs have been obtained."

Farm interests say that with the higher costs of oil, farming has become an expensive business and the terms of trade have turned against the farmer in recent years. Prem Shankar Jha, the editor of the *Financial Express* newspaper, sees the farmers' agitation as a "symptom of development as it is a "shift from low-risk, predominantly subsistence cultivation to high-risk cultivation mainly for the market and the subsequent vulnerability of the farmers to market forces over which they have little or no control."

Biggest stir

There is some truth in the commercial argument. The Maharashtra farmers, who have created the biggest stir, are onion and sugar farmers who have seen their onions which they sell for Rs30 per 100 kilos going on sale to the consumer for Rs 3 a kilo. They naturally want to cut into the middleman's profits, aware that they are the ones who have to pay the higher oil prices and bear *the cost of bad weather.*

Mr. Sharad Joshi, the former civil servant who has become the Maharashtra farmers' leader, wants a pricing structure based on the cost of living rather than the costs of producing the commodity as before. He and his farmers are angry that the agricultural pricing mechanism has been used as a tool to protect the urban consumer.

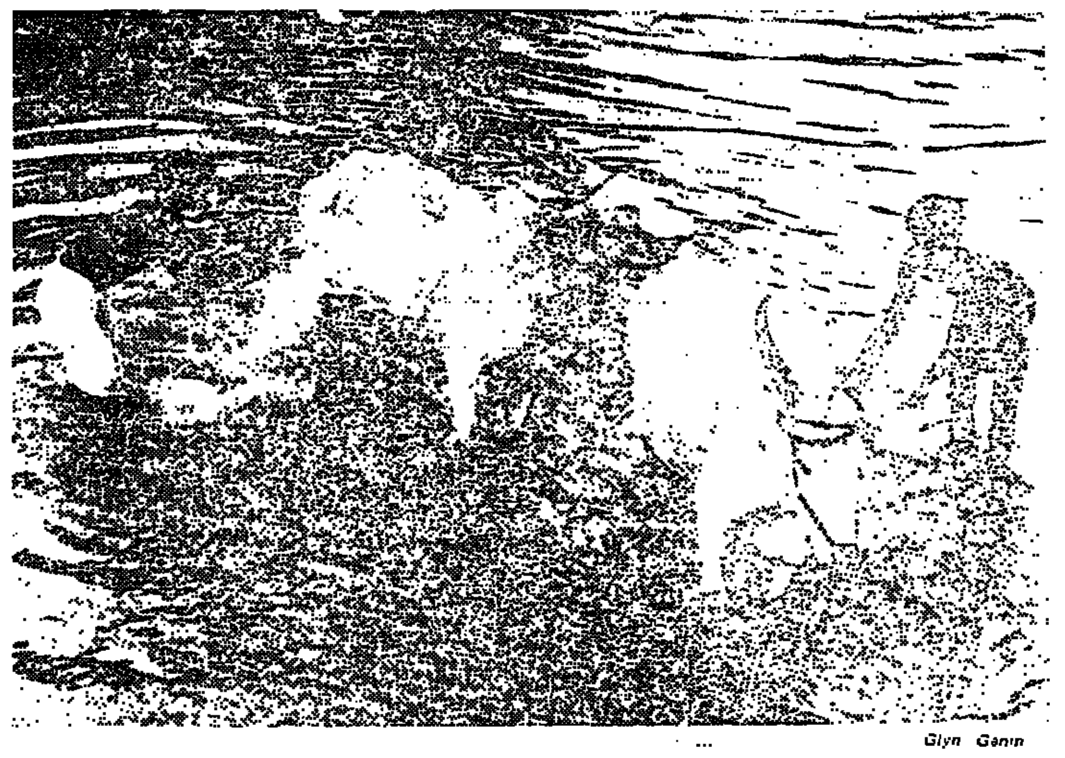
But Professor Raj Krishna, of the Delhi School of Economics asks why the farmers should get special privileges: "80 per cent of the urban industrial workers are in the unorganised sector and hence do not have their wages linked with the cost of living. The same thing is true of landless labourers. Society should first of all guarantee linkage of their income with the cost of living. They are the poorest of the poor. The farmers' case can and must wait."

The very diversity of Indian farming makes it difficult to generalise. Farmers include mechanised small farmers of the Punjab who are highly efficient, who get three crops a year from their land and who have been badly hit by higher energy prices. But they also include big landowners of Bihar and Uttar Pradesh who are politically well connected, who have not responded to modern techniques and who pay bonded labour a pittance as wages.

There is scope for diversification. Dr. M. S. Randhawa, one of the fathers of the green revolution, argues that if farmers were encouraged to grow cash crops like potatoes and fruit and if they were to export, their incomes would be boosted, new jobs would be provided and the country would benefit from foreign exchange earnings.

An outsider might argue that prices should be allowed to rise in return for reduction of costly subsidies of inputs and proper assessment of levies and taxes on the farmers. But in an India where the black, that is, illegal, economy parallels the white economy, it is unlikely that a Government that cannot keep track of what is happening in the cities could ever straighten out the accounts in so many remote rural corners.

The role of Government is crucial, and more and more economists are calling for the Government to do what is within its grasp rather than try—and fail—to control everything. If the Government could guarantee sufficient foodgrain crops, if it could ensure implementation of the land reforms and other laws enacted long ago, if it could encourage research and extension work and prompt its own officials to get down to the farm gates rather than sit in their offices, it might then leave many of the other decisions to the market and the sound commercial sense of the farmers. Intervention after that could be limited to tilting the balances right when things went awry, rather than trying to run the whole farm machine. Were the Government to do its own job properly and not try to do everyone else's, then Indian agriculture might start to grow with the leaps and bounds it has promised.



Glyn Genin

Bathing oxen in Kerala, Southern India

Jute threshing in Bangalore

Stress on non-alignment

CONTINUED FROM PREVIOUS PAGE

the kiss of death on India's diplomacy aimed at ending the Iran-Iraq war."

In many ways, the Iraq-Iran war has proved to be more serious for India because, when two-thirds of its crude supplies were suspended, it was the Russians again who baled out its ally.

As Mr. Narasimha Rao puts it: "The competitive, and at times, even combative, interaction between technologically advanced societies and those among the developing countries which have control over vital natural resources like oil and industrial raw materials, has created an economic situation generating intolerable pressures on developing countries like India."

He acknowledges that the "psychological, political and military implications of regional conflicts of the type we face in West, South-West and South-East Asia, and the larger phenomenon of Great Power competition on a selective basis in different parts of the world, especially in the Indian Ocean area, are posing new challenges to our foreign policy."

What he did not spell out was that India's ambivalent position on Afghanistan and the surprising decision to recognise the Heng Samrin regime in Kampuchea led to a retreat on foreign policy in two ways.

First, India was isolated from the vast majority of the non-aligned and found itself voting twice in the UN General Assembly in a manner different from most of the members of the group.

The isolation could become pronounced when the non-aligned foreign ministers meet next month in New Delhi and deal with issues like Afghanistan, the Iran-Iraq war and Kampuchea only in the most general terms and with no forward movement.

Change

Second, and more importantly, there has been a distinct change in the attitude towards the neighbours and China. Mrs. Gandhi has been talking of the threat of an arms build-up in Pakistan which she has not been able to substantiate when challenged by her domestic political opponents, although this could be her reaction to Pakistani comment on the religious riots in India.

She has followed a "hard-line" policy towards Bangladesh, particularly on the Ganges water dispute and border infiltration that might be justified on grounds of national interest but which has created considerable unease among the neighbouring sub-continental countries.

Relations with China are now again on the same low plane that existed for nearly two decades before the Janata External Affairs Minister, Mr. Atal Bihari Vajpayee, paid his visit to Peking in 1979. The recognition of the Heng Samrin regime seems to have convinced the Chinese that India has swung irretrievably towards the Russians and they are acting accordingly.

The "postponement" of the *Chinese Foreign Minister's* proposed visit to India last year led to the official statement from New Delhi that the next initiative would be left to Peking.

This effectively negates the progress made towards normalisation of relations with China and has prevented the cuts in defence expenditure that a settlement of the Sino-Indian border dispute would entail. The ASEAN (Association of South East Asian Nations) countries are equally upset over India-policy on Kampuchea and the efforts to strengthen relations with them, particularly economic relations, have received a severe setback.

Yet, despite the strains on India's foreign policy that the 1980s portend because of the international situation, the "tilt" towards the Russians must be counted as a gain since the Soviet connection has brought much in terms of political support and material aid even though it has cost the country its credibility as a non-aligned power.

Whatever Mr. Narasimha and Mr. Sathe may say, this is in any case of increasing doubtful value. The leverage of the non-aligned has plunged after the lack of any headway of Afghanistan and Iraq and Iran. This has not, at any rate, cost India anything in terms of relations with the European countries which still see the country in realistic economic terms in a way that China cannot be seen.

If India's foreign policy seems to be *ad hoc* in character, it is the result of the international situation which has forced the country to bend with the wind.

GOVERNMENT AND INDUSTRY

Growth continues despite controls

PRIVATE SECTOR

K. K. SHARMA

CONTROLS ARE mulitplying and strangling private industry, complains Mr. N. A. Palkhivala, the *eminent constitutional* lawyer and a director of Tatas. He sees the short-term outlook for the private sector as distinctly bleak since, in his view, the Government's new industrial policy has made no substantial difference to the situation.

Mr. M. H. Mody, president of the Associated Chambers of Commerce and Industry, disagrees. He feels the new policies are signs of a distinct change in attitudes and is cautiously optimistic about the future role of the private sector.

There are many such representatives of hopelessness and hopefulness in the private sector, ranging from Mr. Palkhivala's grim pessimism and Mr. *Mody's cautious optimism.* The truth probably lies somewhere in between.

There is no denying that private industry, especially the so-called "large industrial houses" covered by the Monopolies and Restrictive Trade Practices Act (MRTP) has to face an extraordinary number of regulative bodies before they can proceed with plans to expand and set up new units. Mr. Palkhivala estimates there are as many as 4,000 controls at the central *and state government* levels.

Yet, as Mr. Govind Mathrani of Greaves Cotton—a unit of Thapars, one of the "large industrial houses," and among the more optimistic in top management—says, the private sector has grown over the years. This may be, as Mr. Palkhivala contends, due to the resilience of Indian businessmen and a tribute to their determination to press ahead despite the inhibitions and constraints on them.

But it is also due to deliberate Government policy that the private sector has grown—and again this means the "larger houses" which are theoretically barred from expanding except in rare cases.

The system in India is such that all major companies must obtain Government approval to instal a unit and to expand it. The MRTP and the Industrial Development and Regulation Act (IDR) are the two main *instruments to ensure that* the private sector moves along the course charted for it by the Government. Both are intrinsically inhibitive and meant to encourage the small and medium-sized entrepreneur so that the "large" concern does not become larger.

If the large industrial houses have, nevertheless, managed to expand their assets and operations, it is because they have been allowed to do so by the Government. There is no other way they can do so legally.

A recent study of the growth of the private sector by the Institute of Economic Growth shows its surprising resilience and ability to expand within the framework of the regulations of the Government. The *study concludes that the larger* companies have "the best of both worlds. They not only enjoyed higher profitability compared to the smaller ones but they were also able to reduce fluctuations in profits."

The study shows that the two largest groups, the Birlas and the Tatas, account for 41 per cent of the paid-up capital and 40 per cent of the total assets of the large industrial houses. The growth of the larger houses, despite the official policy to check their expansion and concentration of economic power, is evident from the study of the market structure of the commodities produced in India. This is, by and large, non-competitive and large conglomerates often control a substantial portion of the total corporate assets.

Top four

Thus, the top four producers account for 80 per cent of the commodities produced, if textiles and food products are not included. Only 20 per cent of the products made by the corporate sector have more than four companies producing them. In 95 per cent of the commodities made, the share of the four top companies is more than 75 per cent of the total output.

If these findings are correct, then the avowed aims of preventing the growth of monopoly houses and concentration of *economic power have not been* realised despite the MRTP Act and the IDR Act or the innumerable regulations and licensing procedures that are meant to keep a check on them.

Indeed, it can be argued that *the growth has been directly* the result of Government policy, since the larger houses have undoubtedly taken advantages of such loopholes as being allowed to expand in the "core" sector, in industrially backward districts and in export-oriented areas to maintain the growth that all profitable companies consider essential.

Mr. Palkhivala marvels at this growth and thinks it is tribute to the vigour of private enterprise which, he feels, is deeply rooted in the Indian psyche. If this is the growth the large houses have achieved when the Government has decided to stunt them, he wonders what might have happened had there been no restrictions.

Mr. Mody goes one step further and says that the Government should declare firmly that the growth is the result of decisions taken in the light of nationally-determined priorities. Rather than apologise for the growth and promise inquiries into it, says Mr. Mody, the Government should go on the offensive to defend the private sector (by which he means the larger houses).

There is much to sustain this *view.* After all, the larger houses have not only the resources to grow but also the necessary managerial skills. Their rapid growth despite the constraints on their operations bear ample testimony to this. Yet *they complain vigorously of* the many limitations on them.

A private sector economist, Mr. D. R. Pendse, has drawn up a list of 24 major controls that a company could be subject to. These range from the formidable MRTP Act, which requires any unit covered by it to go to innumerable Government committees and agencies to have cleared applications for licences, import of technology or foreign exchange imports.

This means not just avoidable delays but a tremendous wastage of resources. Mr. Palkhivala estimates that the capital cost of a project proposed by Tatas rose from Rs 1.08bn to Rs 1.8bn in the three years it took to obtain approval for it. *Eventually, it is the consumer* who must pay for this.

The other major complaint is of the restrictions and difficulties in the way of access to financial resources. The banks and the term-lending institu*tions are nationalised* and Government policy dictates that the bulk of the loans must go to the so-called "priority" sectors (like small farmers, traders and small industrialists). In the past 15 years or so, organised private industry has virtually lost access to traditional sources of working and development capital.

This is not only because of Government policy. The private companies hesitate, in any case, to approach public financial institutions because of the application of, for instance, the convertibility clause. Under this, the financial institutions can convert their loans into equity after a period. Industrialists find this frightening since it can lead to direction by the Government in their operations, if not an actual takeover.

In the last Budget, the convertibility clause was relaxed and public financial institutions no longer have the option to convert more than 40 per cent of the loans into equity. This is, however, not considered to be a sufficient safeguard since a 40 per cent share is usually dominant (as in the case of FERA companies in which the foreign holding has been diluted to 40 per cent without any apparent effect on the control of the foreign shareholders).

Hence most large companies must depend on the generation of their own resources for both working and development capital. Because of the difficulties of borrowing from the financial institutions, they actually prefer this even though growth would be faster if conventional sources were used. Most MRTP companies use their own financial resources since the capital market is virtually non-existent (despite the success of some recent flotations).

The companies also come up against the barrier of a Government-fixed debt-equity ratio which compels them to look within for their resources. Government help now usually goes to the "sick" units (the number of which is growing); the private sector feels these *should be allowed to die rather* than use scarce public resources to keep them going.

Bitter

Private industry also com*plains bitterly about* the increase of raw material costs (agricultural prices are protected and are rising) and of being asked to bear the cost of a mounting wage bill without the assurance of stable industrial relations. On top of this is the high level of taxation on the corporate sector which is ever increasing.

What is really eroding the private sector's ability to function is the arbitrary limitations imposed on the emoluments of not only top directors but also top-level and middle-level management.

The Government has obviously done this to minimise the disparity between earnings of employees in the public and private sector. But the result is that the quality of management in both will suffer. Indeed, it prevents the introduction of a professional management system in place of the traditional hereditary one. But the Government has decided to contest a judgment which went against the decision to impose restrictions on the *emoluments* and this is bound to be self-defeating.

That private industry has reached the position it has, despite the constraints on it, is remarkable. The Government is aware of this and has provided for it a Rs 600bn investment in the Sixth Plan compared with just over Rs 900bn for the public sector. But investment for the private sector cannot be planned in the same way as the Government's share can; it cannot, after all, be compelled to take investment decisions in areas that the State, through the licensing system, has prescribed.

Yet the success of the new industrial policy must depend on how the private sector reacts to it. Permitting automatic expansion or growth in export-oriented areas is done easily enough on paper, but will become meaningless unless conditions can be made attractive for the private sector to take advantage of the new concessions.

The initial feeling of most private industrialists is that the new policy is a shift in the right direction and this has been widely welcomed. The role of the private sector is finally being accepted, but much more needs to be done to enable industrialists to perform it.

TOP 10 INDUSTRIAL GROUPS

(1978-79) (in rupees)

Name of Industrial House	Assets	Turnover	Profit before tax
Birla	11.71bn	13.74bn	988m
Tata	1.02bn	13.67bn	512m
Mafatlal	3.17bn	4.75bn	390m
J. K. Singhania	3.99bn	3.18bn	135m
Thapar	2.44bn	3.67bn	202m
Imperial Chemicals	2.28bn	3.08bn	263m
Bangur	2.20bn	3.41bn	132m
Shriram	2.04bn	3.35bn	83m
Oil India	2.03bn	4.23bn	156m
Scindia	2.02bn	926m	−77m (loss)

Industries given greater pricing flexibility

PUBLIC SECTOR

DAVID HOUSEGO

WHEN GOVERNMENTS fall from favour much of the criticism rubs off on the public sector. This is particularly so in a country like India where the public sector plays such a dominating role in the economy. Criticism of the inefficiencies and dismal performance of the public sector has mounted sharply over the past year.

There have been two major lines of attack. The first was voiced in the Government's own annual economic survey for 1979-80 which pointed to the deteriorating financial position of the public sector. Net losses after tax for the 139 public sector units rose from Rs 320m in 1978-79 (the period covered by the survey) to an estimated Rs 2.5bn for 1979-80.

The survey pointed out that, despite an increase in sales turnover of more than 85 per cent between 1974-75 and 1978-79, the ratio of gross profits to sales grew only marginally from 5.4 per cent to 5.6 per cent — low by almost any yardstick. Aggregate figures are misleading in that almost half the public sector units showed a profit in 1978-79 and losses were boosted enormously last year by the massive deficit of Coal India. But, as the survey comments, the financing of future economic plans "depends crucially on the ability of (public sector) enterprises to generate resources in adequate measure." This has become all the more imperative in the context of increasing limitations encountered in raising resources through taxation.

The second line of attack has been that the public sector's *primary function has been to* control the "commanding heights" of the economy, including such industries as coal, steel, power and railways. But it has been the failings of these industries over the past two years that has dealt such a crippling blow to the rest of the economy. Coal India, a leviathan riddled by politics, inefficiency and corruption, poses daunting problems of reform. On a quite different level, the malfunctioning of generating equipment provided by Bharat Heavy Electricals (BHEL), which has almost a monopoly in the domestic market, has certainly contributed to power shortages.

Mrs. Gandhi implicitly recognises the force of these criticisms in setting up a commission under Mr. Mohammad Fazal, a member of the Planning Commission, to examine the public sector. But much of the blame for the public sector's problems lies with the Government itself.

Too often state enterprises have been used as vehicles for political patronage or for providing jobs for party workers. *Interference by ministries in* management has grown. Mr. Fazal acknowledges this as a fault to be remedied: "The day-to-day concern," he says of government departments with the administration of state *enterprises,* "results in intervention and dilutes the responsibility of management, which has been happening in a substantial measure."

In September almost a third of the state corporations were without a chief executive. India has even more difficulty than Britain in filling posts that are underpaid by private sector standards, do not carry with them full powers of recruitment and sacking in the public sector's inflated workforce, and where the chief executive lacks clearly defined responsibilities.

"Only a fool or somebody who is corrupt would go into government service" exclaimed one prominent industrialist recently. This is an exaggeration but it does point to the demoralisation widespread among government employees. A rapid turnover of top managers or delays in appointing chief executives have contributed to uncertainties at BHEL and Hindustan Machine Tools—two top public sector organisations.

The public sector employs 1.9m people and covers such a wide range of activities that all generalisations tend to be misleading, and adverse ones to gloss over the public sector's successes. Mr. Pranab Mukherjee, the Commerce Minister, was quoted recently as saying that the public sector's singular role had been its contribution to

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TOP 10 PUBLIC SECTOR ENTERPRISES

(Cumulative investment up to 1979-80)

	Amount of investment (Rs bn)	Per cent
Steel Authority of India	29.9	19.2
Coal India	13.7	8.8
Fertilizer Corporation of India	7.0	4.5
Shipping Corporation of India	7.0	4.4
Oil and Natural Gas Commission	6.3	4.1
National Fertilizers	5.3	3.4
Rural Electrification Corporation	5.2	3.3
Kudremukh Iron Ore Company	5.0	3.2
Central Coalfields	4.83	3.1
Food Corporation of India	4.7	3.0
Total	89.53	57.0
Total for all enterprises	156.0	100.0

Source: Public Enterprises Survey 1978-79.

States claim autonomy would bring faster growth

CENTRE-STATE BALANCE

KEVIN RAFFERTY

SOME INDIAN pundits have a fanciful dream that if the Indian Union were loosened and autonomous states allowed, then there would be a sudden flowering of economic development and the freed states of Punjab, Maharashtra, Tamil Nadu and Gujarat could throw off the shackles of the tortoise central bureaucracy and grow like large (considering their population sizes) South Koreas or Taiwans.

In the dream, even benighted West Bengal would take on a new lease of life with the ability to raise its own taxes and loans.

The only laggards would be the giant states like Uttar Pradesh and Bihar, which are crippled by caste and other restrictions, but even they might be shamed into action by *other states' successes.*

It is a highly fanciful idea, not least because successive Governments at the centre have shown hearty appetites for more, rather than fewer, powers over the states. It is also doubtful whether the ordinary Indian would want to see his country divided and it is something of a pipedream to imagine that the great powers would stand by without trying to nuzzle up to potential new allies which could destabilise the map even before it had been redrawn.

All this does not stop the frequent grumble that the unwieldy bureaucratic centre has inhibited economic growth and that if the states were allowed more freedom, growth rates could be much higher.

It is tempting to go along with the idea. Indian economic growth has been much slower than the average for Asian developing countries even though India had a much better base on which to start. The dominating feature has been the number of controls and the tardiness of decision making *allied to a lack of flexibility and* receptiveness to new ideas. But in the present climate, political considerations prevent any suggestion of greater state autonomy from being given serious thought.

The constitution of the Indian Union established a centre with paramount powers. Unlike the U.S. or Australia, the residuary powers of legislation are assigned to the centre, not to the states. Over the years the centre has, if anything, become stronger in relation to the states. The natural wish in a poor developing country to conserve resources and not to have wasteful duplication led to the Central Government taking the lead in planning.

The revenues available to the New Delhi Government have increased substantially whereas the states' taxes, principally sales tax, but not on such items as textiles, tobacco and sugar, have proved inelastic. Thus the states have had to fall back on the Central Government for both funds and permissions.

The unwieldy design of the *state structure in India would* also make it difficult to work out a devolution of powers. The states range in size from Uttar Pradesh, which with a population of 110m would be a big independent country, to tiny states like Arunachal Pradesh. New states have been created from time to time on a rather haphazard ad hoc basis. Thus Punjab was split into Punjab and Haryana. Bombay was split into Naharashtra and Gujarat on linguistic grounds, but the Telegu speakers of Andhra Pradesh were denied their own state. In the north east pocket, states of Manipur Meghalaya, Tripura and Arunachal Pradesh were created.

Consensus

Academic analysts of the *problem of centre-state relations* have stressed the need for a federal consensus, alloting to each party the functions and powers it is best fitted to use.

Such consensus or idea of power sharing might have existed in Nehru's day when *the Congress Party reigned* supreme and when the Prime Minister was a man big enough to share ideas. In those days too, a chief minister of a state was a power in his own right. But today the power game has changed.

The Janata Government of 1977 insisted on turfing out State Governments owing allegiance to Mrs. Gandhi and holding fresh elections. Mrs. Gandhi did the same when she came back to power.

More than this, she has made sure that the people she has installed as chief ministers in the states are not potential rivals to her. The Chief Minister of Bihar, Dr. Jagannath Mishra, openly said that only Mrs. Ghandi's leadership counted, and the rest of the party only derived support from her.

The attitude of Central Government Ministers to the state governments not of their party has been disparaging, if not threatening. Mr. A. B. A. Ghani Khan Chowdhury, the Energy Minister, declared that the Communist Government in West Bengal should be thrown into the Bay of Bengal.

The Home Minister, Mr. Zail Singh, sent a telegram to the West Bengal Chief Minister *accusing the Communists of* "flouting" central instructions on hoarding and distribution of essential commodities—precisely when the state government was complaining that New Delhi was not sending these commodities.

In Bengal, a battle royal is going on between the Congress and the Communists for control of the trade unions, with industry and power supplies the sufferers.

In Kerala, another Communist government state, Mrs. Gandhi herself accused the state government, when on a visit to the state, of attempting to stamp out the opposition and not giving a fair deal to minorities, though the general view is that the Kerala Government has treated its minorities better than Congress-run State Governments have treated theirs.

All this has meant that the question of states' powers has become entangled with bitter political invective. Another non-Congress chief minister, Mr. M. G. Ramachandran of Tamilnadu, accused New Dhelhi of trying to secure more powers for itself and of "administering the states like *Panchayats* (village councils) and municipalities."

Four state governments—*those of Tamil Nadu, West Ben*gal, Kerala and Tripura—earlier *this year proposed an amend*ment to the constitution giving the states more powers. Tamil Nadu considered that the powers of the centre should be limited to defence, foreign policy, currency and inter-state communications. West Bengal would also have given foreign trade and economic co-ordination to New Delhi's charge. Predictably, the Central Government rejected the proposals.

In the highly charged political atmosphere of India in the 1980s these political struggles have overwhelmed any rational consideration of the best economic balance of powers between centre and states. So determined has been the political infighting that even the limited powers of the states have been diminished and in the case of West Bengal the centre has held up projects as part of the political battle.

Some states where political passions have not been aroused so vividly have lived with their powers and made the best of them. Gujarat is a case in point. The state was created in 1960 out of the old Bombay State and at that time had an industrial economy about 35 per cent of the size of Maharashtra's and 40 per cent of West Bengal. Today, Gujarat industry probably surpasses that of Bengal and it is more than 40 per cent of Maharashtra's, making it India's second industrial state.

Gujarat's cotton belt had helped create a strong textile industry around Ahmedabad. The discovery of oil has helped boost chemicals, petrochemicals and plastics which today account for about 30 per cent of the state's industrial output. The state-owned fertiliser company is reckoned to be among the handful of well-managed public sector industries in the whole of India.

In next round

There are gaps. State ministers are concerned about the *lack of heavy industry and* themselves point to the fact that Gujarat accounts for less than 9 per cent of the sales turnover of the top 200 corporate bodies in India. Electronics factories near Gandhinagar, the capital, and an acrylic fibre spinning and knitting industry are also in the next round of targets.

The state's Minister for Finance and Planning, Sanat Mehta, likes to think that he can build a reputation like that of the late Pratad Singh Kairon of the Punjab: once he has set his heart on a project he will pursue it singlemindedly and get it. An example is the need for another two lane highway, costing Rs 350m, to run along the canal system of the Narmada valley. If the Delhi Government will not pay for the project, the state has determined that it will build the road alone.

Gujarat has many advantages. Apart from good supplies of water and land and a trading tradition—Gujaratis are the predominant group of migrants to East Africa—Gujarat has a state Government owing allegiance to Mrs. Gandhi. It is much easier for it to work within the prevailing framework and get what it wants without undue fuss.

East Bengal is the other extreme. On paper it was the best developed industrially of Indian states, but much of that industry was foreign owned and based on commodities.

Indian entrepreneurs were mainly Marwaris (from Rajasthan) who started life as traders. From partition until 1971 Bengal had to cope with a steady stream of refugees from neighbouring East Pakistan (Bangladesh). A total of more than 4m refugees is estimated to have settled in Calcutta alone between 1946 and 1971.

From independence until the 1960s, Bengal's problems were viewed as those of an advanced industrial state, so it did not get central attention in the promotion of "balanced" industrial growth. For 14 *uninterrupted years*, the Chief Minister of Bengal was B. C. Roy, one of India's political giants and a personal friend and physician to Nehru. But he could not secure the headquarters of a single financial institution for Calcutta.

Then in 1956 T. T. Krishnamachari decided to equalise the freight rates of iron and steel, which negated the advantage *West Bengal had from being* situated on the iron and coalfields. On the other hand the freight rates for other essential commodities like cotton and oilseeds which are grown across the country from Bengal were not equalised.

Since the mid 1960s, a political dimension has been added to the problems of West Bengal. The rise of the Communists and their vicious fights to secure command of the state sector [illegible] industrialists [illegible] India and abroad and created a distance between them and the centre.

Before 1979 and the return of Mrs. Gandhi it looked as if things might improve. The Communists had won the election victory [illegible] and were popular all over the state. Even the industrialists in Calcutta discovered the new Ministers were determined to set the state on its feet. Foreign investors found that the Communists were not such ogres after all.

Suspicions

But the return to power in Delhi of Mrs. Gandhi [illegible] off the mutual suspicions between the capital and Calcutta, sometimes with good reason. Besides the [illegible] of the Marxist Government that the Congress Party was stirring up violence in the state as an excuse to oust it, the Chief Minister, Mr. Jyoti Basu, accused Delhi of "stepmotherly treatment" over economic projects.

He claimed that several projects, including a ship-repair yard, a coal-based steel plant at Haldia, an electronics project in Calcutta and a [illegible] manufacturing plant at Durgapur were all being held up waiting decision in Delhi.

Dr. Ashok Mitra, the Finance Minister of West Bengal, meanwhile complained of the difficulties of raising funds for essential social and development work. [illegible] the centre indulges in [illegible] the state which has the immediate [illegible] much [illegible].

Officials in New Delhi say that many of the [illegible] of the Bengal Government are public [illegible] rather than well-founded or [illegible] held grumbles. But in Calcutta there is a strong feeling that if the state is to [illegible] again it needs to [illegible] loose from some of the trammels of the centre. In particular it needs [illegible] to raise more funds and need quicker *decisions on* projects.

But there is also recognition in the Bengal capital that the whole issue is entangled in more general political considerations, and there is gloom as to whether [illegible] will ever be [illegible] rationally and work out the best solution. Once again the political [illegible] have priority over the demands of the economy.

Sector's pricing more flexible

CONTINUED FROM PREVIOUS PAGE

the technological breakthrough in the country—which would include the space and nuclear programmes and the aeronautics industry. Both BHEL and HMT have been to the fore of innovation, though this was easier when funds were less *tight and the political* guidelines clearer than is the case today.

The Oil and Natural Gas Commission, Air India and Indian Airlines have given proof of dynamism and the power to generate revenue. The Mining and Allied Machinery Corporation (MMAC), manufacturers of coal-mining equipment, and Jessop's (rail wagons) have *diversified* to take in unused capacity—the former into earth-moving equipment and washeries for the coal industry and the latter into specialised cranes.

There has also been a marked improvement in management techniques in the public sector with cost control, corporate planning and monthly profitability forecasts becoming more common.

In an attempt to improve the performance of the public sector industries, the Government has begun to allow them more flexibility over pricing. This is a step in the right direction. Indian coal still sells domestically at about a quarter of the international price. Of more dubious value is that the Government has quietly revived the practice of price and purchase preference for public sector industries tendering for a Government contract. The main purpose of this is to promote higher levels of capacity utilisation in the public sector, but it is also seen as a way of saving foreign exchange by en*couraging more domestic* manufacture of capital goods. It risks, however, promoting greater inefficiencies.

The root of the public sector's problems lie in investment policy and management. Mr. L. K. Jha, formerly one of the most influential civil servants in government and an ex-governor of the Reserve Bank, has pointed to the tendency of *administrations to approve* funds for new plan projects while not ensuring that money is available for the maintenance of existing facilities. This has been a continuing problem in the public sector where the political pressures are on expanding capacity rather than ensuring the correct functioning of existing units. Hence the swollen capital/output ratio of Indian industry where the returns have not matched the immense resources invested.

Mr. Jha has argued that public sector enterprises must be given clearly defined targets by which their performance can be judged instead of vague exhortations to serve the community or be a model employer. Mr. Fazel would also seem to have something similar in mind in proposing that, as in Germany, France or Italy, the Government should lay down the policy framework for a public enterprise including yearly targets for turnover, investment and profitability. Within that framework he says "the public sector needs to be *allowed a free hand—by impli*cation more autonomy of management. If companies fail to perform then the Government should be prepared for one or two bankruptcies. Bailing them out should be "a very remote possibility," he adds.

Whether any Indian govern*ment would be prepared to* accept such a proposal is doubtful. The public sector has swollen in size partly because of its past readiness to intervene to protect employment in industries threatened with closure—particularly in textiles. There have been cases of firms paying out high dividends even when making losses in the certainty that the Government would later take them over.

There is no intention in India as yet of consciously promoting through the public sector high technology industries of the future or those seen as potential high fliers. The 1956 Government statement of industrial policy, which defined the parameters of the public and private sector, left a grey area between them. Electronics, for instance, *falls into that grey area.*

Problems straining the economy

INFRASTRUCTURE

DAVID DODWELL

ECONOMIC GROWTH in India is being severely frustrated by chronic infrastructural problems. Stagnant coal production has caused serious shortages of electric power and has aggravated difficulties in an already faltering railway system.

Add persistent labour trouble and it is clear that India's industry is beset by seemingly intractable problems which lead most sectors to perform far below their rated capacities.

Losses are not simply confined to industrial output. Failure to meet basic needs in the economy — such as supplies of fertiliser, edible oil, steel and cement — has forced the Government to spend precious foreign exchange on extra imports.

"The economy has been caught up in a vicious circle of shortages of power, coal, oil and transport," said a leading businessman and industrial analyst in Bombay." The paucity of one has led to the scarcity of the other, which in turn has triggered off shortages in the former.

Setbacks

"As a result, there have been serious setbacks to production in all other sectors, leading to unemployment, shortages and inflation. Inadequacy of infrastructure has thus become a major retardant of economic growth."

The loss of industrial production in 1979-80 due to power shortage alone is estimated at Rs 73bn ($9.3bn). Losses resulting from other infrastructural failures are impossible to calculate.

The Government seems aware of the scale of the problem. It is estimated that up to 40 per cent of the funds to be allocated under the Sixth Five-Year Plan, covering 1981-85, which is about to be published, will go to the coal, power and transport sectors.

Domestic oil production, now 32m tonnes a year, is to be boosted to 69m by the end of the century. Coal output, stuck at just over 100m tonnes for the past four years, is targeted to rise to 145m tonnes by 1983 and more than 400m tonnes by the year 2000. Demand for power is expected to rise from the current 29,000 MW to more than 110,000 MW by 2000, and an aggressive programme aimed at adding 4,000 MW a year to the system should begin to bear fruit by 1984.

Targets are all very well, as are cash allocations, but many observers feel the roots of the country's infrastructural problems lie elsewhere: in labour troubles that verge often on a state of anarchy, on chronic corruption, and on endemic bureaucratisation which creates "paralysis by analysis."

The coal sector is widely seen as the starting point for these infrastructure problems, though it is also claimed that shortages of power in the mines cost the country 7m tonnes in lost output in 1980.

Some reasons for stagnant coal output are quickly explained: many mines are 100 years old and use pick and shovel methods dating from the Victorian era. The rail network linking the mineheads with coal consumers is outmoded. High ash content in much of India's coal means that many railway wagons leave the mines carrying as much as 40 per cent of extraneous matter. Cash spent on modernisation could resolve all of these problems.

But much more deep-seated—particularly in the high-quality coal-producing areas of Bihar and West Bengal — are labour problems rooted in local Mafia-style operations, corruption and simple thuggism. Coal output in this region has actually declined in recent years, canceling out the rise in production from the more recently developed western and central coalfields. In addition, there has been a chronic shortage of coking coal which comes almost exclusively from the eastern coalfield region — forcing the Government to import large quantities of coking coal to keep domestic steel mills running.

Steel industry spokesmen claim that the coal sector supplied only 20m of the 24m tonnes needed in 1980—causing losses in production of about 48,000 tonnes a day.

As India's oil bill mounts to Rs 55bn this year, coal has been seen as a vital "energy bridge" sustaining India's industrial growth. This is not an unreasonable hope, since India has the fourth-largest coal reserves in the world — estimated at 80bn tonnes. The coal industry attracted Rs 3.8bn of investment in the current financial year, and can expect about Rs 17bn over the next five years.

Foreign economists claim that the target of 145m tonnes production by 1983 is highly optimistic — even though the fact that demand for coal has already reached this level makes achievement of the target vital.

The railways have no doubt suffered because of coal shortages, but their most serious problems result from a simple lack of investment. Tracks and rolling stock have simply been allowed to wear out. The Government's policy of self-reliance has prevented the import of new wagons or locomotives so replacement of old equipment has slowed to the level that can be met by domestic production.

The bulk of the railway's traffic comprises essential raw materials: coal, steel, cement, fertilisers, petroleum products and foodgrains. As the volume of freight carried has stagnated at about 200m tonnes a year, it is not surprising that the economy has stagnated with it. A measure of the problem is the fact that almost a quarter of last year's coal output was in the end transported by road at considerable extra expense.

Investment of Rs 14bn is earmarked for the next five years, but observers are not confident that this is sufficient to resolve the industry's problems.

Power supplies were badly hit in the early part of 1980 by the poor monsoon in 1979. Hydro-electric supplies slumped, putting impossible strain on thermal power plants. Power cuts were widespread. But by the end of the year, following a better monsoon, the situation had improved. While this is encouraging, one foreign economist aptly noted: "You are still only a bad monsoon away from another nightmare."

Discussion with industrialists in Bombay revealed that serious supply problems remain. Major power users are still forced to function with 30 per cent cuts from their approved load. Even now they report frequent load-shedding, fluctuation in voltage, and even total breakdowns—all of these serious problems for continuous process industries.

Losses

India's thermal power stations can still only manage output at an ignominious 44 per cent of capacity and transmission losses still reach 25 per cent. Energy experts claim that a mere 10 per cent improvement in capacity utilisation would enable industry to boost output by a value of Rs 40bn.

The Government claims power output has improved by 11 per cent over the past year. Independent analysts project a more modest 6-7 per cent improvement but either rate of increase is inadequate. Power supply is so far short of demand that no one has been able to calculate by how much output must be increased if shortages are to be erased.

Major investments in power have been approved. The newly-created National Thermal Power Corporation has the task of bringing on stream an average of 4,000 MW a year from 1984 onwards. This is expected to lift capacity from the current 29,000 MW to about 116,000 MW by 2000.

Further efficiencies are planned by installing new thermal power plants in the coal fields, close to their sources of supply. This should take some strain off the railway system, and give power stations a more stable supply of coal. However, even if all of these changes occur according to plan, Indian industry can expect only improvement in supplies during the two or three years ahead.

Labour disputes crippled large sectors of Indian industry. In 1979: a record 40m man-days were lost through stoppages. On the face of it, 1980 has been a significant improvement — the man-days lost totalling less than 10m.

However, many industrialists report that the improvement is more apparent than real. First the 1979 figures were badly distorted by a protracted dock-workers' strike early in 1979. Second, they feel the low level of formal disputes over the past 12 months can be directly attributed to the "honeymoon" period following Mrs. Indira Gandhi's election victory in January.

It is certainly worrying that industrial output has not risen as a result of the large fall in strike stoppages. Industrialists in Bombay reported persistent simmering labour troubles and continued resistance to any form of improved mechanisation.

At the same time, there is a marked deterioration in law and order across the country, which could easily translate itself into labour conflict. The breakdown of federal control in Assam shows no sign of being repaired. Communal disturbances throughout north India have been severe. Unprecedented agitation by farmers has occurred in Maharashtra, Tamil Nadu, Gujerat, Uttar Pradesh and Karmasutra.

One business spokesman in Bombay said: "Employers here see no relief from labour troubles. In fact, conflict, when it occurs, has been more violent than ever before."

The infrastructural collapse in 1979 also occurred in the ports. Long strikes created terrible backlogs—with up to 80 ships waiting for berthing space in main ports like Bombay and Calcutta. By now, the backlogs have disappeared, and the surcharges imposed by the shipping conferences because of delays have been withdrawn since June.

At the 107-year-old Bombay port, India's largest, the 51 berths are being used to capacity. While no ships were waiting for berths in January, the management concedes that even small disputes could transform the situation for the worse.

Faced with Government plans to fuel economic growth by boosting exports, Mr. Vishna Kumar Uppal, chairman of the port trust, says he would not be able to boost throughput from its current level of 16.6m tonnes.

In fact, his port's capacity to handle trade is soon likely to fall, simply because more and more trading partners insist on using containers. Bombay has capacity for just 100,000 containers a year — about 1m tonnes. Plans to treble container capacity are stalled simply because the port has insufficient space. There are plans to build a new container port near Bombay at Nhava Sheva, but even if all goes to plan, no relief can be expected before 1987.

Economists inside and outside Government are unanimous in recognising that failure to resolve India's infrastructural problems will at least stunt economic growth. At worst, it could be the catalyst for a complete breakdown of India's economic and political systems. Success or failure depends on policies about to be unveiled in the Sixth Five Year Plan—and on the strength of the Government's will to tackle the political and social obstacles to achieving planned targets.

A level crossing on the outskirts of Calcutta. India's railway system is in difficulties because of a shortage of electric power caused by stagnant coal production

Controls still a burden

FINANCING INDUSTRY

KEVIN RAFFERTY

WITHOUT EXCEPTION, Indian industrialists in the private sector say that finding the money for setting up or expanding an industry is not as big a problem as getting the permissions, going through the hoops of monopoly controls, licensing and special inquiries, and just waiting for the bureaucratic machine to digest the papers it has demanded for setting up a plant.

However, they do then admit that few of them could think of finding the funds for a new or expanded plant themselves. Even Tata Iron and Steel, by common consent the best managed of India's steel plants and on a par with most world plants, had to go outside to finance its own modernisation.

And the Industrial Development Bank of India (IDBI), the country's leading supplier of funds for new industrial projects, says it is about Rs 2bn short of funds it needs immediately. This is about 20 per cent of the disbursed assistance it provided in 1979-80, such is the precarious financial plight of Indian industry.

One problem of discussing the question of finance for industry is that the Government has effectively nationalised all the financial institutions and the claims of industry are part of a series of demands it must juggle and sort out. Looking at the country's financial resources only from the point of view of their best industrial use, it is easy to conclude that the official regulations induced a series of distortions which do not make for the most economic use of funds, and at the same time, potentially large sources are being left untapped.

Industries tend to look to the banks for their working capital and to the term lending institutions for funds for new projects. Interest rates and rules for borrowing are all laid down and this has given rise to difficulties on all sides.

Thus the interest rates charged by the IDBI are currently 11.85 per cent, and once a loan has been signed the interest rate will stay the same for the life of the loan irrespective of what is happening to the financial world outside. The body is currently asking for permission to vary interest rates during the life of a loan. IDBI supplies about twice as much to industry as the combined total of the other institutions such as the life insurance companies.

There was recently a radical proposal that the IDBI and other term lending institutions should be allowed to go to the open market for funds and charge a market rate of interest for the money they lend. But this was rejected, probably because the Government feared that it would cut into its own cheap sources of finance. When public sector corporations are losing Rs 11bn a year this is important. What happens is that the Government instructs its institutions to ration out finance at low interest rates to what it decrees to be deserving causes.

Topped up

The nationalised commercial banks have to lend 40 per cent of their funds to the Government at less than 7 per cent. The IDBI gets a third of its funds from its own repayments, another 25 per cent from the Reserve Bank of India at 6.5 per cent and a third from market borrowings at 6.75 per cent out of the statutorily deposited funds. In addition its funds can be topped up by temporary borrowings from the Reserve Bank at 9 per cent against the security of usance bills rediscounted by IDBI.

On top of that the IDBI took a 10 per cent loan of Rs 600m from the Life Insurance Corporation of India. Given the present structure of interest on its own lending, 10 per cent is the maximum it can pay without losing money.

Even taking loans from the institutions carries penalty clauses that industrialists do not like. Such loans carry a conversion clause which has allowed institutions to build up substantial positions in many leading companies. In the case of Tata Iron and Steel, this has crossed 40 per cent and in some other lending companies the share is between 15 and 30 per cent. The low price at which the conversion is done has also been a matter for concern.

After pressure, the Government has agreed to make some concessions. It is to instruct the institutions not to press conversion when the holding in a company is already 40 per cent. But the Government will not agree to conversion at the market price prevailing at the time of conversion.

Almost all big compaines have long gone past the stage of be-

CONTINUED ON NEXT PAGE

INDIA IX

Workers preparing to start a shift at a Hindustan Aeronautics factory. The company is to assemble 45 Jaguar aircraft (right) which will be imported from British Aerospace in kit form

Sharp rise in budget to pay for projects

DEFENCE INDUSTRIES

K. K. SHARMA

INDIA'S DEFENCE budget spurted sharply in 1980 when the Finance Minister allotted an additional Rs 3bn in June to the Rs 40bn allocated earlier in the interim Budget. This accounts for more than 30 per cent of the total Budget and almost 3 per cent of the GNP.

Recently, more deals have been signed with the Soviet Union and the Eastern Europeans on the one hand and several West European countries on the other. These are both for outright purchase of arms and equipment and, more importantly, for establishing a firm base for production of defence equipment of all kinds.

The bulk of the new expenditure is intended to meet the needs of the Indian Air Force through a network of factories. The main one is the Hindustan Aeronautics complex at Bangalore in Karnataka State, which will assemble 45 Jaguar aircraft imported from British Aerospace in CKD kit form and manufacture another 115 under license. The controversial £1bn deal has finally overcome the vicissitudes it went through last year and the contract is to be carried out as originally planned.

Hindustan Aeronautics will manufacture Adour engines and the airframe for the Jaguar. In line with the requirements of the Air Force, the company is maintaining a tight schedule. In the past year, close monitoring on the progress of planning, ordering of plant and machinery, tooling and other requirements were undertaken. The project is said to be on schedule and the first Jaguar should roll off the assembly lines within the next 24 months.

Equally important is the manufacture of two new aircraft that the Government plans. The MiG-23 is to replace the MiG-21 and its successor, the MiG-21-bis, now made in three factories in the country and, therefore, should not need much additional capital expenditure. The investment is expected to be covered by the Rs. 13bn deal for arms supply reached with the Russians last year and will provide the Air Force with an important new aircraft.

Both the Jaguar and the MiG-23 will take care of the country's air defence needs for the next decade or even 15 years. But the Defence Ministry has now concluded that the country needs to develop and manufacture in India a new "light combat aircraft." This opens the way for fresh collaboration with foreign manufacturers.

Combat

In the running for this are British Aerospace, which has competed successfully in several previous deals, the Mirage 2000 offered by the French and the Viggen by Sweden. A similar deal of the kind that ended with the Jaguar contract will thus be negotiated in the coming year or so for the development and production of the new "light combat aircraft."

India's defence industries are by no means limited to meeting the needs of the air force, although this gets the major share of the defence budget. The country's defence industrial base consists of 32 ordnance factories and nine public sector undertakings which also produce for civil needs. Together they had a turnover of Rs 85bn in 1979-80 and catered to the needs of the one million men in arms in terms of the decision taken in the mid-1950s to make the country self-reliant in defence production.

Apart from continuing to produce weapons and equipment for the army that inherited weapons from the British, the ordnance factories have added a wide range of items over the past two decades. The development has been so rapid that the defence production units now employ directly 140,000 workers and many times this number are employed by ancillaries to which the manufacture of components is farmed out.

The factories produce 7.62 Isapore rifles, carbines, light machine guns, 2-inch, 81 mm and 120 mm mortars, 75/24 pack howitzers, 106 mm recoilless guns and L/70 anti-aircraft guns. In all these weapons, and their ammunition, India is approaching self-sufficiency. Production of the Carl Gustaff anti-tank weapon under licence from Sweden is being finalised.

In addition, the Vijayanta tank and the 105 mm Indian field gun are being manufactured and improved. Made at the tank factory at Avadi in Tamilnadu, the Vijayanta is now to be phased out after having been in service for nearly two decades. The main battle tank (MBT) of the army will now be the Russian T-72, the first supplies of which are thought to have already arrived. This is expected eventually to be made in India under licence.

Ordnance factories made such "B" vehicles as the Jonga four-wheel-drive truck, the Nissan one-tonner and the heavy-duty Shaktiman in collaboration with Japan and West Germany. But the need for fuel economy and upgrading the vehicles and their pay-loads has led to a decision to replace the present fleet. This is another area open for fresh foreign collaboration.

The Defence Ministry has laid down as tasks for the defence industries the improvement of the mobility and fire power of the three services commensurate with the requirements of the battlefield environment of the 1980s and beyond. Some requirements of the future are increased night-fighting capabilities such as night vision devices and illuminating ammunition. All this is being done under the modernisation programme with which the general industrial base is closely linked.

Defence units have to depend closely for their raw material requirements, intermediate products and the common user components on the civil industrial sector. As the Defence Ministry says: "Ultimately, the degree of indigenisation of our advanced integrated weapons systems depends upon the extent to which the country produces sophisticated steel and other alloys, forgings and castings, basic electronic components and other linked inputs. This calls for integrated approach to industrial planning in defence and civil sectors."

Constraints

The stagnation in industrial production has inevitably affected defence production in the past couple of years and the constraints on the civil sectors have also operated on their defence counterparts. Yet because of the priority given to them, units under the Defence Ministry have managed to maintain high levels of capacity utilisation.

Indeed, all but one of the nine public-sector undertakings—which have a total investment of roughly Rs 2.75bn and produce aircraft, ships, electronics, heavy earth-moving equipment, machine tools and the like—made substantial profits last year. Partly this was because they catered to civilian needs also and won some prestigious export contracts which have enabled them to earn funds for their own modernisation and research and development.

While the bulk of the exports consist of "software," it is now admitted that small arms are also being sold abroad so that at least a small part of India's defence production capacity is being used to tap the lucrative international arms market.

Controls still a burden

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ing able to fund their own expansions. In fact capital costs of new plant have risen so much that some of them say they are hard pressed to raise even their promoters' share tied to a loan from one of the institutions.

India's tax laws only allow depreciation to be calculated on the book value of the capital assets and inflation has steadily widened the gap between what the companies are actually putting aside and what they need to replace assets. Given the high rates of corporation tax, economists say that money which should be put aside for new capital is being paid to the Government.

No one is particularly happy either with the arrangements under which companies get working capital. This comes mainly from the commercial banks at rates of interest set by the authorities. At the moment the ceiling rate is 18 to 19 per cent, though priority sectors have lower rates laid down for them. Banks are heavily discouraged from lending for capital investment except for small businesses, though some bankers and some businessmen say it would be a good idea to allow companies to do more bank borrowing for capital requirements.

Officials have constantly grumbled that businessmen have used bank loans to build up inventories rather than for productive purposes. Defenders of the businessmen respond that in India there are many more eventualities to guard against than would occur in an industrial economy. In Europe, they say, industrialists do not have to worry about power supplies and carry large fuel stocks in case of cuts. In India they do.

The last year or so has seen continuous squeeze on credit which has caused industrialists to squeal. Officials retort that this is an attempt to restore discipline to bank borrowing. Some bankers would like to see a switch to a system of fixed term borrowing at fixed interest rates whether the loan is used or not. But any such change has been rejected and the Reserve Bank has opted for a "streamlining" of the present cash credit—in effect an overdraft system. But its way of doing this, of requiring detailed quarterly reports and periodical reviews of large overdrafts, seems certain to cause even more grumbles.

One scheme which is being used more frequently to raise money is the system of obtaining direct deposits from the public. Companies say that the direct deposit scheme, paying depositors 15 per cent, is more flexible than overdrafts as it is not subject to Reserve Bank squeeze, though they cannot pay off the depositors at will.

Squeezes

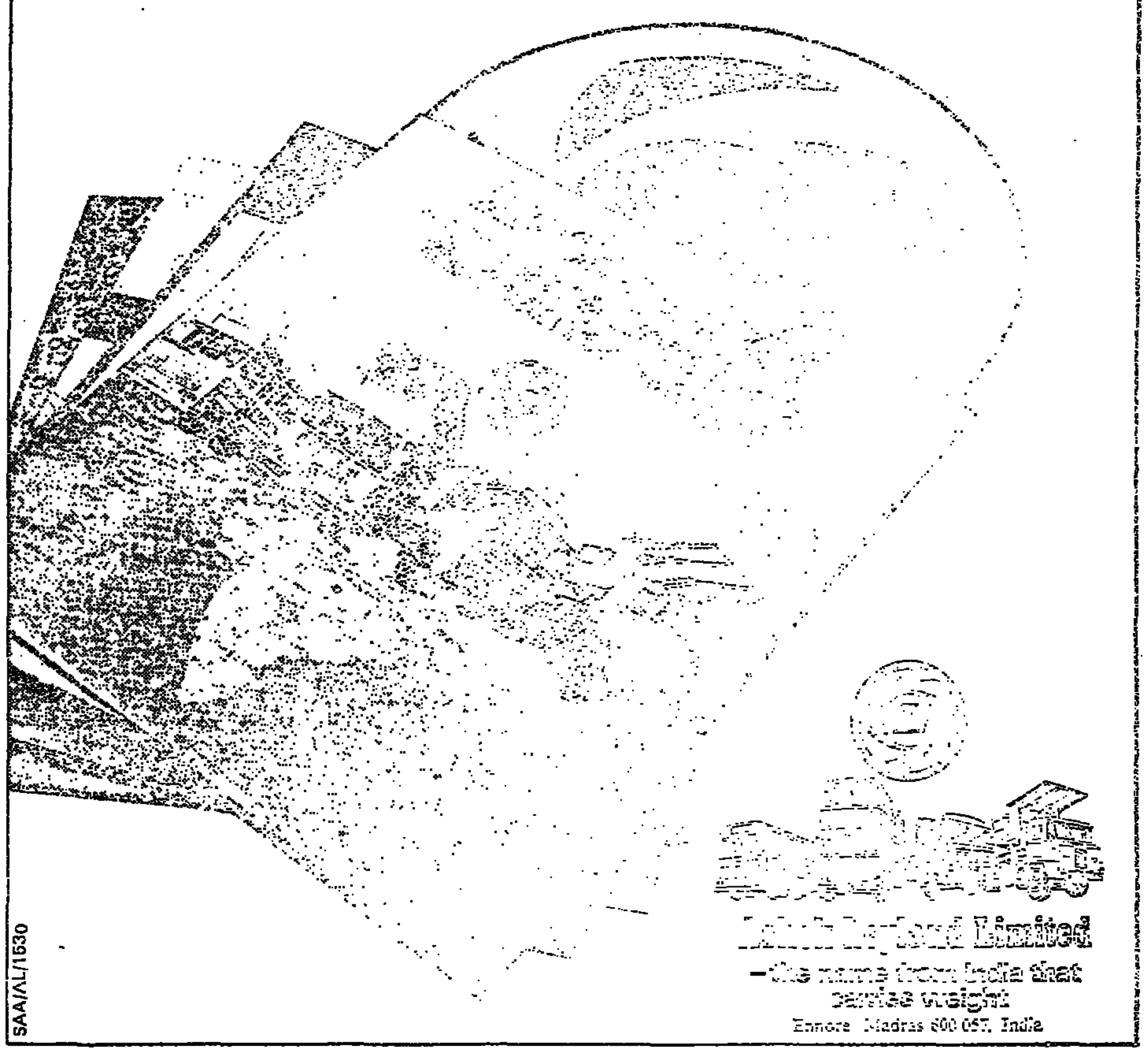
What most worries industrial economists is the pincer movement of financial squeezes and prolonged waiting and haggling for permission and licences which further drives up the cost of investment. Because of outdated capital stock and the constant search for the cheapest and sometimes obsolescent technology, India's incremental capital output ratio is 6.2 compared to between 2 and 2.5 in other countries.

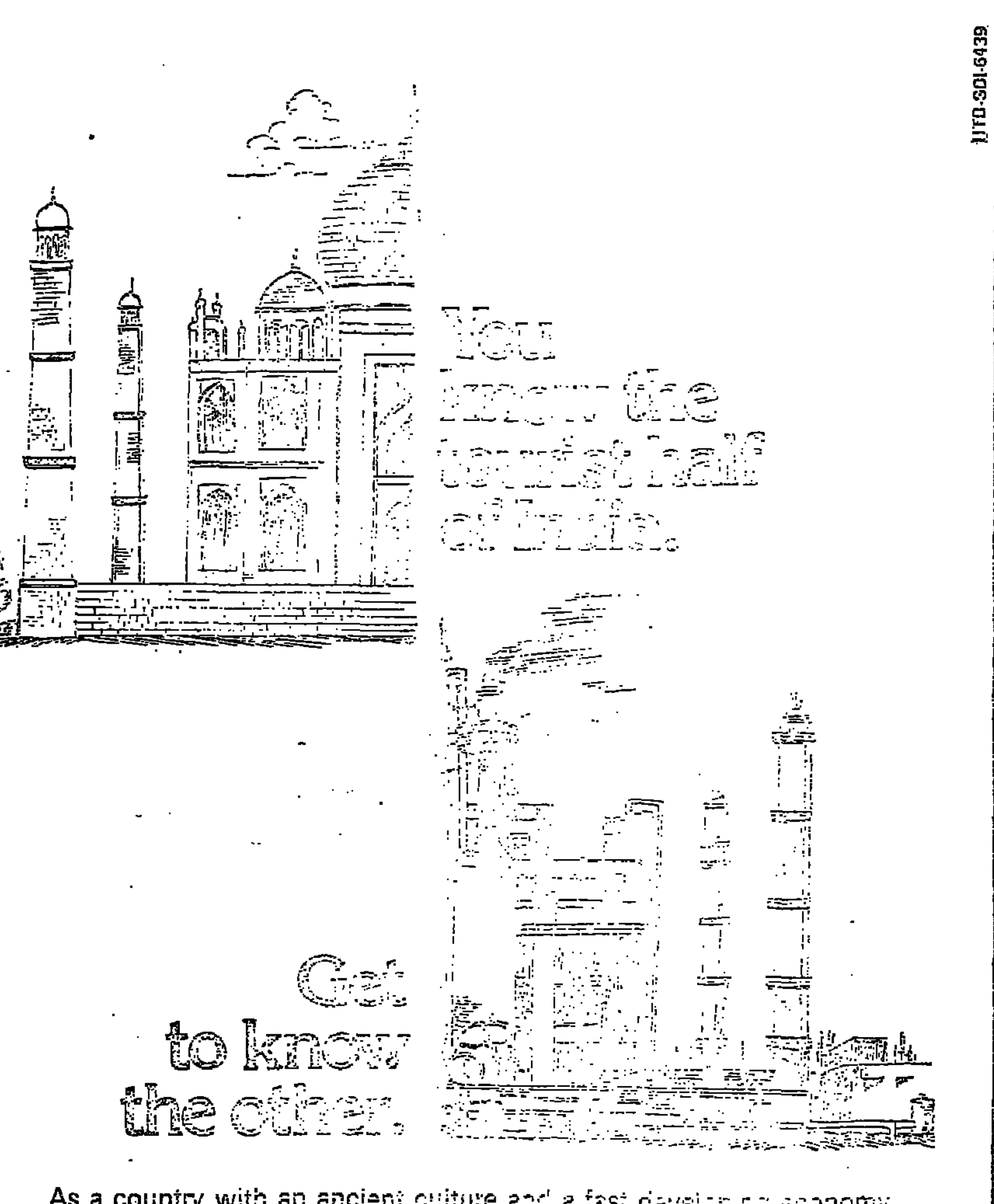
According to the plethora of rules and regulations there are all sorts of schemes for the encouragement of small scale industry, young entrepreneurs, scientist businessmen and businessmen starting off in backward areas. Bankers say that they go out of their way to encourage such people and to support them with lower rates of interest, also officially set. But some struggling young businessmen to whom I talked in Bombay complained that what counted in the end was connections and contacts in high places.

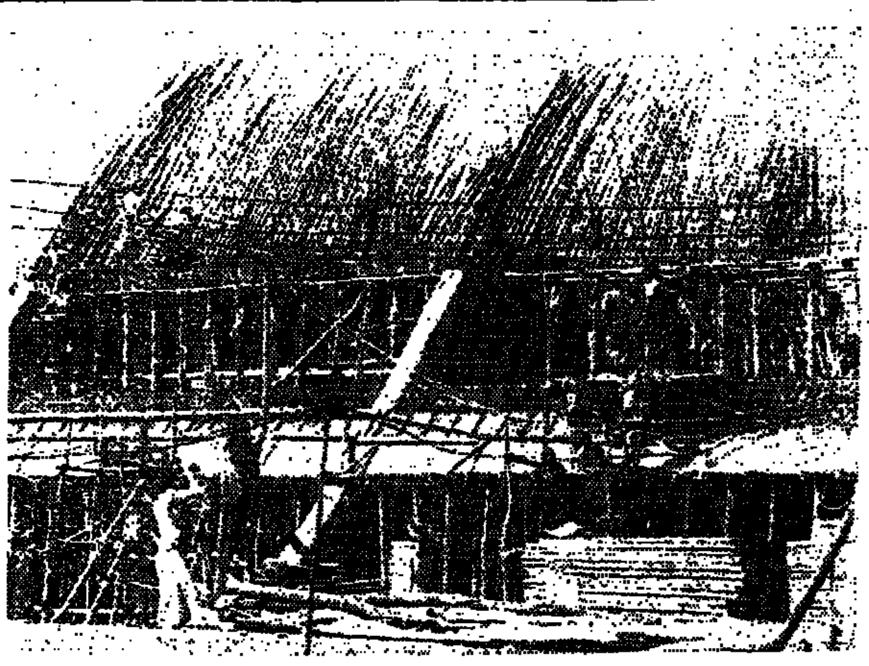
In the end, the bigger company, for all the official rules and regulations and slogans against monopoly and the power of the big business houses, is more likely to have the contacts and the fixers and the wherewithal to get its funds and perhaps to keep potential opposition at bay.

For the past few years the rate of savings in India has exceeded the rate of investment. Money has been flowing in from migrants working in the Middle East; yet, the IMF complained, it had gone to buy land, jewellery, buildings and to the liquidation of debts rather than to productive purposes. Washing around the official economy there is plenty of black money.

Perhaps the biggest failing of the straitjacketed system in India today is the lack of imagination in tapping new sources of funds and bringing them into the mainstream system where they can be put to productive use. But that would also require, if not relaxation of controls, at least the urgency to approve new projects and investment quickly.





Steel tubes being made at Bharat Steel Tubes' factory in Ganaur, Haryana, 60 km from Delhi. The company's automatic tube mills have a capacity of 200,000 tonnes a year. Right: A web of steel reinforcing on a building site in New Delhi

INTEGRATED STEEL PLANTS
('000 tonnes)

INGOT STEEL

	Capacity	1978-79 production	1979-80 production
Bhilai	2,500	2,200	2,108
Durgapur	1,600	945	882
Rourkela	1,800	1,319	1,268
Bokaro*	1,700/2,500	1,195	1,426
IISCO	1,000	628	565
TISCO	2,000	1,866	1,781
Total	10,600/11,400	8,153	8,030

FINISHED STEEL
('000 tonnes)

	Capacity	1978-79 production	1979-80 production
Bhilai	1,965	1,846	1,706
Durgapur	1,239	776	604
Rourkela	1,225	1,042	1,045
Bokaro*	1,355/2,000	931	849
IISCO	800	481	430
TISCO	1,524	1,516	1,448
Total	8,108/8,753	6,592	6,040

* Bokaro's rated annual capacity was increased between 1978-79 and 1979-80.
Source: Ministry of Steel and TISCO.

THE INDUSTRIAL BASE

Little hope of production recovering in the short term

STEEL
DAVID HOUSEGO

AT A TIME when the world's steel industry has been weighed down by excess capacity, India has been one of the rare exceptions in its problem of being unable to make full use of the facilities it has. As a result the country has depressingly slipped from self sufficiency—or indeed from being a net exporter of steel four years ago—to being forced to make substantial imports that have put an unnecessary additional burden on its foreign exchange requirements.

Output from the six integrated units continue its downward slide from a peak of 7.4m tonnes of finished steel in 1976-1977 to 6.04m tonnes last year. The one remaining private sector unit—the Tata Iron and Steel Company (TISCO) plant at Jamshedpur—operated at close to full capacity to produce 1.4m tonnes in 1979-80. The state sector plants, now grouped under the management of the Steel Authority of India Limited (SAIL) achieved a low average of 63 per cent of capacity. Bokaro, the country's newest steel mill built with Russian help, reached only 42 per cent and Durgapur, a largely British-equipped plant that has been continually plagued by troubles, managed only 48 per cent.

Even in a year when demand for steel was relatively low because of the slowdown in the economy, the Government was forced to import 1.3m tonnes (equivalent to 20 per cent of domestic output in 1979-80). With output unlikely to show much increase—production was down in the first six months of the fiscal year but began recovering in October and November—India will be importing a further 1.4m tonnes this year. Mr. K. C. Khanna, who has been recently shifted to manage SAIL after impressively supervising the construction of the Kuremukh iron ore mine (the output of which had been destined for Iran), hopes to trim back imports to 500,000 tonnes by 1981-82.

After the massive investments that India has put into steel as the backbone of the country's engineering industry, this is by any yardstick a disappointing performance. It is particularly so because of the comparative advantages that India has in steel making through ample iron ore resources, substantial deposits of coking coal, though admittedly of indifferent quality, and low labour costs. Steel Ministry officials put the cost of domestically produced steel, when plants are working to normal capacity, at around $300 a ton — or below international levels. In addition to the loss of foreign exchange through imports of steel the *Government subsidises its sale* to bring the imported price in line with indigenous prices.

Power shortage

The main cause for the loss of production has been the shortages of power, coal and rail wagons that have had such a crippling effect on the rest of industry. The steel sector has been particularly badly hit because four steel plants—Bokaro, Durgapur, TISCO and the Indian Iron and Steel Company (IISCO)—are heavily dependent on supplies from the Damodar Valley Corporation in West Bengal. Power deliveries have fallen to as low as 30 per cent of the contracted supply mainly because of labour troubles and equipment failures. Thus rolling mills have lain idle. At the same time the steel industry's stocks of coking coal have fallen to as low as 24 hours' supply because the coal has not either been mined or the railways have been unable to move it.

These external factors are by no means the whole story of the steel industry's troubles. There has also been a long record of poor planning, delays in executing projects and careless management. It was clearly a mistake to have left three state sector mills so heavily dependent on the Damodar Valley Corporation—a mistake that is now in part being rectified by Bokaro putting up its own captive power units.

Though Bokaro came into production in the mid-1970s it was based on Russian designs of the 1950s and thus lacks continuous casting facilities, which means a heavy additional power demand for reheating in the rolling and slabbing mills. Its blast furnaces were also built for coke with an ash content of 12-15 per cent whereas the domestic coke it now uses has an ash content of nearer 29 per cent.

More generally the public sector units have run into serious cash flow problems this year because they allowed their stocks of unsaleable steel ingots to build up to a massive 737,000 tonnes instead of producing pig iron for which there would have been a market.

Some of the immediate problems—such as reducing the size of steel ingot stocks—are being tackled under the more forceful management brought into SAIL by Mr. Khanna, but in other ways *the Government* appears to risk repeating past mistakes.

Mrs. Gandhi's administration inherited two proposals for Western-financed coastal steel plants to be erected on a turnkey basis and on which decisions had to be taken by September 1980, by when the offer of a fixed price contract expired.

The logic for these was that a *rapid expansion of steel* capacity was a major priority; that existing plants had suffered from the weaknesses of India's steel equipment manufacturing industry and its coal and power sector; and that a turnkey project on a coastal site would be the most effective way of ensuring both an early beginning and the necessary infrastructure while providing exports of steel to help pay back borrowed funds.

The Congress administration preferred to let the deadline slip so that it could review the proposals. In principle it has decided to go ahead with a 1.5m tonne plant at Paradeep in Orissa. Davy International, *in conjunction with British Steel* and Mannesman Demag of West Germany, are the principal contenders for a contract originally estimated at about £1.5bn.

The Government had indicated that it would decide between the rival bids by mid-January but this date has slipped by as well. As a result of both the increasing squeeze on foreign exchange resources and pressure from public sector *companies that more equipment* orders be placed domestically the project is being further reviewed. The trouble is that the more variables introduced into the package, the longer will be the delays in starting work on the plant.

India has suffered badly from slippages in the past. The first phase of the Bokaro steel mill, which carried production of ingot steel up to 1.7m tonnes, was some five years behind schedule as a result of indecision over the possibility of a turnkey plant and then delays in manufacturing the equipment at the Heavy Engineering Corporation's complex at Ranchi.

Larger plan

The expansion of Bokaro to a capacity of 4m tonnes is also running behind schedule. The expansion of Bokaro and the commissioning of a new integrated unit at Paradeep are part of a larger expansion plan aimed at raising capacity from about 11m tonnes at the moment to some 24m tonnes by 1989-90.

Bhilai is being extended from *2.5m tonnes to 4m tonnes.* British Steel is involved in preparing a plan for the modernisation of the Durgapur mill, which is now more than 20 years old. At Rourkela there have been delays in building a silicon electrical sheet plant and *in modernising the hot strip* mill. The Russians are helping to build another coastal plant at Visakhapatnam with an initial capacity of 2m tonnes building up to 3.4m tonnes.

After lengthy delays TISCO have now been given permission for a Rs2.5bn modernisation of their plant which, in spite of being the oldest in India, has consistently run at higher levels of capacity than the public *sector units.* The modernisation includes replacing 1m tonnes of the Duplex technique of steel-making which TISCO adopted in 1925 and which ante-dates open-hearth furnaces. TISCO claims to be the only plant in the world still operating it.

Two basic oxygen convertors for the steel melting shop have been ordered from Davy McKee. TISCO is also introducing continuous casting across a third *of its crude steel-making* capacity of 2m tonnes. The foreign exchange cost of the programme is $70m of which £14m is coming in ECGD-backed credits.

Delay in creating new capacity means costly imports continue

ALUMINIUM
K. K. SHARMA

CONSIDERING THAT India's imports of aluminium have averaged Rs 2bn in the past two years because severe power shortages affected production in aluminium projects, it must come as a surprise that decisions on creation of new capacity have been taken slowly.

This especially so after the Geographical Survey of India (GSI) established bauxite reserves of 2,269m tonnes along the eastern coast, making India the third largest in terms of bauxite ore in the world after Guinea and Australia.

The aluminium complex to be established with the help of Aluminium Pechiney of France *in Orissa State* has been cleared recently. This is a project more important than one meant only to increase aluminium-making capacity. It involves raising the largest Eurodollar loan (of $680m) that India has yet *sought and for this reason alone* it stands out in India's industrial potential. Yet this will take another four or five years to complete.

In the meantime, the Government has still to finalise dis*cussions with the Soviet Union* on establishment of a similar project in the southern state of Andhra. The Russian Government has offered to meet the cost of equipment to be imported for the project and of *services given by Soviet experts* for the plant through a scheme of "production compensation" (or imports of aluminium by Russia from the project).

Many months

This has still to be cleared, however, and the Government's final decision on the project could take many more months. The delay is costing the country heavily since the project envisages the production of 600,000 tonnes of alumina annually.

Both the Orissa and Andhra projects are needed not only because they will add to the *aluminium-making potential on* virtually self-financing terms (through the export of a bulk of the production) but also to meet the shortage of the metal in India and abroad. Production of aluminium actually fell to 123.985 tonnes from April to September 1980, compared to 191.874 tonnes in the same period last year. This is mainly because of a substantial under-utilisation of capacity of the *three existing aluminium plants* which are hit by the country-wide power shortage.

The French-aided project in Orissa, to be operated by National Aluminium and the erection of which will be supervised by Engineers India (EIL) who have been appointed consultants, will be the biggest of its kind in the country.

To be built at an estimated cost of Rs 12.87bn, the complex will comprise of an open pit mine at Panchpatmalli with a capacity of 2.4m tonnes of bauxite a year, an alumina plant at Damanjodi with a capacity of 800.000 tonnes a year and an aluminium smelter with a capacity of 218.000 tonnes per year. A captive power plant with a capacity of 720 MW will be part of the power-intensive complex.

Half exported

Of the total annual production of alumina, half will be used to make aluminium while the rest will be exported, mainly to France. The Soviet complex will be similar both in scale and on the terms.

Of the main production units, the Hirakud unit of the Indian Aluminium Company at one *time closed because of shortage* of power. The smelter at Belgaum in Kerala got just 20 per cent of its needs of power. The Bharat Aluminium Company got an average of just 64 MW against its contracted demand *of 120 MW. Hindusthan* Aluminium used its captive plant fully because the U.P. Electricity Board failed to supply all but a part of the contract 85 MW. No wonder there is a shortage.

The aluminium target of 240,000 tonnes — around half the installed capacity — is unlikely to be achieved this year and India will remain an importer of aluminium until the *new projects are commissioned,* or in the unlikely event of the power supply situation improving rapidly and drastically. The demand is something like 350,000 tonnes a year, making imports of around 135,000 tonnes necessary (through the public-sector Metals and Minerals Trading Corporation).

Yet the potential for aluminium production in India is enormous. The GSI has established the large reserves recently; just nine years ago it was thought that the bauxite reserves would not be more than a nominal 230m tonnes. Surveys by the GSI reveal that the *coastal belt* from the Godavari basin in Andhra to the Mahanadi basin in Orissa contained 1.832m tonnes, or 75 per cent of the country's total reserves.

The dramatic change in India's bauxite *prospects* has enabled the country to think in terms of setting up large alumina plants for export as well as to feed indigenous smelters. Hopefully, if the approval and arrangements for the new projects come through rapidly, the expected demand for aluminium of 445,000 tonnes by 1985, and 650,000 by 1989, will be met (in addition to creation of additional capacity for export of a metal for which there is worldwide demand).

The expected production based on power prospects is, however, likely to be 105,000 tonnes less than the demand by 1984 and hence additional capacity to bridge the gap will have to come up quickly. There is little indication that this will happen.

Yet such is the potential that Mr. Biju Patnaik, former Minister of Steel and Mines, said last year: "India's new finds of bauxite-ore can some day make India a leader of aluminium in the world. With our bauxite in the Orissa-Andhra belt, we can easily produce 20 per cent of the aluminium in the world if we can generate the necessary power and make the necessary investments."

Exports held back by bottlenecks at home

ENGINEERING EXPORTS

DAVID HOUSEGO

INDIA'S engineering industry responded to the first oil crisis with a sharp increase in exports of engineering products. This was reflected in a growing number of civil engineering and capital goods contracts won in the Middle East and Africa as well as by some eye-catching turnkey projects.

Particularly striking was Bharat Heavy Electricals' (BHEL) success in winning the contract for the $125m enlargement of the Tripoli West Power Station in Libya and the award to Engineering Projects India (EPI), also a public sector company, of the massive $290m contract for the Ardiya township complex in Kuwait.

It was also reflected in the sharp rise of a whole range of other products including castings and forgings, hand tools, vehicle components, machine tools and diesel engines. For the decade ending 1978-79 exports of engineering goods rose by an annual average of 25 per cent, giving rise to comparisons of Indian strength in manufactured exports with those of the group of so-called newly-industrialising countries.

This was a misleading yardstick because India remains a continental economy with only 5-6 per cent of its engineering outputs going to exports. But in the mid-1970s there were also special circumstances that operated in favour of government attempts to get the engineering industry to help close the trade gap caused by the higher oil imports bill.

Anxious

With domestic demand depressed, industry found itself with production capacity to spare. In the private sector companies such as the Kirloskar group were anxious to win an international name for their diesel engines and pump sets. Public sector corporations such as BHEL and Hindustan Machine Tools also were seeking an international reputation, were ready for risks and had surplus funds to finance their marketing operations abroad.

In the Middle East, the electrification programmes of the oil-producing states provided a natural market for companies such as Kamani Engineering with its expertise in transmission lines and towers, and with claims to be the second largest group in the world in this field.

In retrospect this period provided an opportunity for individual firms to demonstrate their capability in which some did well and others overstretched their resources. The response to the second oil crisis has been different. Exports of engineering goods last year followed the same downward curve as industrial output as a whole registering a decline of 9 per cent over the previous year. The reasons were similar — the infrastructural bottlenecks of power, coal, rail, steel and ports. Buyers abroad complained of delays in deliveries and the delays themselves pushed up exporters' costs.

But demand for Indian goods has held up though the constraints also remain. Mr. B. Nehru, Managing Director of Tata Exports, the country's largest exporting house, says his company's problem is not marketing but what can be supplied. Exports of Tata trucks, for instance, are being held down to 5,000-6,000 against a potential demand abroad of 20,000 a year because of the long home order book.

In the short to medium term few industrialists expect any significant expansion of the volume of engineering exports. Their pessimism reflects the time it will take for the infrastructural problems to be resolved and for industrial production to pick up.

Also, unlike the mid-1970s, domestic demand is strong so that most companies will concentrate their efforts on the domestic market. This is particularly a priority for companies such as BHEL which is under strong pressure for rapid delivery to Indian power stations and which has been preoccupied with putting right equipment failures on generating sets it has already provided.

BHEL has taken no new orders for boilers from abroad since 1977 because of the strength of domestic demand and its total export orders this year are expected to remain the same as last year at about Rs 1bn ($127m) or about 30 per cent down on 1977-78.

But domestic demand has also been strong for simple engineering items like castings which in any case are likely to run into stronger competition abroad from other developing countries.

A further change is growing scepticism towards the type of civil engineering projects India has been undertaking in the Middle East. Indian construction companies remain highly regarded and have no difficulty in winning business in the building of houses, roads and hotels.

But the main return from such projects is in the remittances made by Indian labourers.

Middle East demands for high-technology equipment from the west mean that often hardware orders are placed outside India. Indian companies nonetheless carry the risks of the contract which—as the Iran-Iraq war has shown, and with it the departure from Iraq of about 10,000 Indian workers—can be considerable.

Some of the most worthwhile contracts have gone to companies such as Kamani which supply a combination of low-technology equipment like transmission towers, plus management and labour. The Middle East also remains an important market for specialised consultancy firms such as Engineers India Ltd. (EIL) with expertise in the oil sector and which has been advising Sonatrach of Algeria on its LNG-11 project.

The engineering industry sees its main potential for the future in capital goods and industrial turnkey projects such as textile machinery or the construction of cement, sugar or steel mills.

For instance, Tata is the prime contractor for a $236m cement mill being erected in Nigeria for which most of the equipment is coming from India and some from Europe. It is also putting up a small $80m steel plant in East Africa for which half the equipment is coming from Japan and Sweden.

Bidding

Mr. Nehru believes that "the prospects have never been better" for India in securing contracts for such industrial turnkey projects for which Indian companies have now established a name.

Tata Exports are currently bidding for another $400m worth of industrial projects. Their policy is to offer a combination of Indian managerial and operational skills "which are up to the best in the world and not expensive" together with the best equipment from wherever it is obtainable. India's great advantage, Mr. Nehru says, is that in a country like Nigeria expatriates are needed down to the skilled labourer level and India can provide them.

Geographically, the focus of attention in bidding for industrial projects is thus shifting from the Middle East to Africa. The Association Indian Engineering Industry (AIEI) recently sent missions to Zambia and Zimbabwe. Africa is seen to offer more potential because the demands are for a technology that India can offer. African countries face the sort of problems with which India has experience, and in the coming years a lot of funds are likely to be available there from international agencies. Indian companies are also becoming increasingly well known.

Technical and Economic Services (Rite), for example, have established a reputation in Nigeria with their consultancy work on the Nigerian rail network.

Indian companies would like more collaboration with British and other European companies in bidding for projects in third countries—linking Europe's high technology with the skills India can provide. Surprisingly, few such partnerships have emerged though in the power field Kamani Engineering, for instance, has entered into partnerships with BICC and Sumitomo of Japan.

But the number of engineering companies which see exporting as an integral part of their operations continues to be small. India "has no export culture" is a comment often made by Indian industrialists. A major barrier to any sustained export effort is the fragmentation of Indian companies as a result of restrictions on size imposed by licensing regulations and the Monopolies and Restrictive Trade Practices Act (MRTP) which deprives them of marketing strength.

One way of getting around this is through the setting up of "export houses" trading in a number of products. Tata Exports now has 17 divisions with many of them handling products from outside the Tata group. The turnover of Tata exports last year was Rs 1.04bn. But only eight others of the 700 registered export houses have turnovers of above Rs 100m.

Exporters are still handicapped by the number and complexity of regulations that cover exporters. The Tandom Committee on Export Strategy commented in its recent report that "there are 78 forms which an exporter has to fill at one time or the other time."

It is still too early to know what impact the Government's recently-announced incentives to exporters will have.

Those companies with the determination and patience to export seem to win their way in the end notwithstanding the discouragements of having to do battle with the bureaucracy. Chloride India, 51 per cent owned by Chloride UK, has just invested Rs 200m in a 100 per cent export-oriented battery manufacturing plant at Haldia near Calcutta—the largest recent private sector investment in West Bengal.

Table of leading engineering exporters, Page IV

Lack of innovation holds back chances of progress

CARS

DAVID HOUSEGO

IT IS a piece of industrial history worth pondering that in the early 1950s India and Japan had an automobile industry of roughly the same size. Last year Japan produced over 6m cars and India 29,000 —less in fact than it produced in 1967.

More than any other piece of machinery the Indian car has come to symbolise the way India has allowed its technology to slip behind in key sectors of industry. Of the two models currently produced in India, the Ambassador, made by Hindustan Motors (part of the Birla group), has changed little in 26 years with its design still drawn from the old Morris Oxford. The Premier Padmini, made by Premier Automobiles of Bombay, is 10 years its junior and the outcome of a collaboration with Fiat to make the Fiat 1100. The agreement came to an end in 1972.

Both cars are instances of the policy of successive Indian administrations allowing a once-and-for-all purchase of foreign technology after which manufacturers must make their own innovations or else go on repeating the original.

In the car industry there has been almost no innovation. The two manufacturers have had little incentive to update their models when the high rates of tax imposed on cars (about 38 per cent of the Ambassador's price of Rs 62,000 comes from tax) so restrict domestic demand and when even higher tariffs on imported cars give them a captive domestic market.

Hindustan Motors is purchasing second-hand dies from Vauxhall that will give the Ambassador a change of style. It has also introduced diesel engines into some of its models. Premier Automobiles is likewise attempting to give its cars a new look through a deal with SEAT of Spain to import the body dies of the Fiat-124.

Yet this is almost the first investment in a decade. The absence of high-octane fuel at all but a small number of garages in India has ruled out high compression ratio engines as a measure of fuel efficiency. Nor have other measures of fuel economy adopted by motor industries elsewhere been introduced in India such as front-wheel drive or the use of lighter materials in car manufacture.

In turn the absence of investment has been a major dampner on the expansion of the type of components industry that has grown up with the car industry in countries as diverse as Japan and Brazil.

Attitudes

On the surface the Government has not shifted from the idea of the car as a luxury item which should, as in China or the Soviet Union, be denied ordinary citizens and be reserved only for institutions or privileged individuals. But there are signs that official attitudes are changing. The realisation is growing that India is losing out both in jobs and in the development of engineering skills from not having a modern car industry — and a more developed ancillary sector that accompanies it.

Sanjay Gandhi touched on an unsatisfied public demand with his idea of a cheap popular car but, as in so much else, it was ruined in its execution. Maruti, set up by Gandhi in the early 1970s, succeeded in only producing a few prototypes and became enmeshed in scandals about corruption.

Four companies—Hyderabad Allwyn, Delhi Cloth Mills (DCM), Punjab Tractors and Eicher Tractors—are seeking ministerial approval for licences to manufacture light commercial vehicles in the one- to four-ton payload range. Used as mini-buses or vans these are intended to meet a similar mass demand for light transport between villages and in cities. But it is believed their proposals are based on the import of CKD kits that, in the present foreign exchange squeeze, the Government may be reluctant to sanction.

Under the Janata administration Premier Automobiles presented a proposal for the manufacture in India of a new car and believed they had won tentative government approval for it. Their plans involved a joint venture in which the foreign partner would have had a 40 per cent stake in a newly equipped Bombay plant with an eventual capacity of 50,000 cars a year. The plans called for the manufacture of the Peugeot 305, Fiat's Ritmo/Strada or the Renault 18.

Premier believed it could put the car on the domestic market at a price of around Rs 75,000. This was based on an initial investment of Rs 3.5bn which allowed for production of 50 per cent of components at Bombay. Production would have begun with imported CKD sets, moving progressively to 100 per cent local content as a further Rs 2bn was invested in a supportive ancillary industry.

The crucial factor in Premier's plans—and the one enabling it to put a new car on the market at only a little above the cost of the Ambassador—was government agreement to relief from tax and import duties which currently run to about 125 per cent of imported components. It can be assumed that Mrs. Gandhi's administration will refuse this.

Mrs. Gandhi's plans for Maruti would seem to draw heavily on Sanjay's ideas as well as those put forward by Premier and the companies competing to establish light commercial vehicle plants. The 300-acre site in Haryana state owned by Maruti was nationalised in October and there is little doubt that Mrs. Gandhi—anxious to commemorate her son—intends to establish on it a new public sector vehicle industry in collaboration with a foreign partner.

Plans

Foreign manufacturers, including Renault and Peugeot, were originally asked to submit plans by the end of last year. Mr. Charanjit Chanana, the Industry Minister, has spoken of an initial investment of about Rs 1.5bn, which sounds unrealistically low. Equally, reported plans, for a capacity of 100,000 cars a year of which 50 per cent would go for export, seem ambitiously high.

The two major snags to the Haryana site are that it is far from a port and that there is no trained workforce available locally. In the first instance Maruti would have to depend on imported CKD sets. If similar privileges were not granted to other manufacturers — particularly Premier and Hindustan Motors who would be most affected—there would be an outcry from the motor industry.

There could also be strong opposition from state governments if the development of Maruti so cut into the demand for other cars as to produce a substantial loss of jobs among rival manufacturers. Premier employs 9,000 at its Bombay plant.

The modernisation of India's car industry is long overdue. But the risk now is that it will get ensnared in the politics and bitterness still surrounding the Maruti name.

Priority given to space and nuclear programmes

TECHNOLOGY

K. K. SHARMA

A THREE-PRONGED approach to improving the technology used by industry has resulted in the introduction of considerable sophistication in various sectors, although officials acknowledge that modernisation is needed in many areas to fill the gaps and make the country world competitive.

In sectors to which priority has been given and for which financial resources are almost unlimited, the progress has been spectacular. Obvious examples are India's space and nuclear programmes, which have resulted in the ability to launch satellites with Indian-made rockets and near self-sufficiency in setting up nuclear power stations.

The second method is the import of technology either through outright purchase agreements with foreign companies or allowing companies to enter into collaboration arrangements on payment of royalties or through partnership agreements. This is possibly the main method of modernisation and its importance has been stressed in the recently announced industrial policy statement which permits the import of technology freely for modernisation purposes.

Examples run across the entire range of industry, from electronics and computer technology to equipment for oil drilling—all are equal to the best in the world with the added advantage that they are more competitive because of low labour costs.

Finally, efforts are being made to encourage research and development in industrial units and by stimulating the evolution of indigenous technology in the chain of government-sponsored research institutes. However, the industrial units that have been successful are few and they continue to depend largely on imported know-how. The research institutes have evolved many new processes but their adoption by industry has also been slow.

As a technical director of a prominent Indian electronics company put it, technology is a question of priorities. For instance, the government has decided that space will not be allowed to lag behind, so the programme has surged ahead partly because Russian assistance and training have been readily made available. Space scientists and engineers are now preparing for the Ariane launcher which will carry the fourth Indian satellite into space within a few months.

Trevor Humphries

Modern technology is being introduced in many industries. Here an operator winds cassette tapes at the Gramophone Company of India's factory in Calcutta

What has helped the Indian Space Research Organisation (ISRO) to reach its present level of achievement is that the government has not limited it to Russian assistance. Indeed, ISRO is now in the process of acquiring a pair of operational communications satellites from a U.S. company for the domestic satellite communications system. The first of these is to be orbited next year but the next similar system will be developed by ISRO itself.

Foreign help

At the Bangalore centre of ISRO, a semi-operational remote sensing satellite is being designed. This will carry a multi-spectral scanner and self-scanning system for earth observation. The launch is expected in 1985. Even for this, there has been no hesitation to obtain foreign help to fill technological gaps and France is actively involved.

All systems and subsystems are designed at Bangalore but most of the space-worthy electronic equipment has still to be imported (this constitutes a small part of the space programme). This is being done by ISRO itself since there is no possibility of getting Indian industry interested in manufacturing the number of minor components that go into a spacecraft.

An example is the solar cells that give the satellite its power. Such cells are being develop at the Bhaba atomic research centre and the solid state physics laboratory. Vital payloads of the satellites are designed at the space applications centre at Ahmedabad, in Gujarat state. This has the responsibility for data collection and utilisation and experiments in communications and remote-sensing technologies.

According to Prof. Yash Pal, director of the centre, among the sensors being developed is a side-looking airborne radar that has been flight tested. This unit is currently being flown with a similar unit of the German space agency, for a comparative performance analysis and use of these sensors for earth resource surveys. The centre has also developed a complete computer-based system for converting the sensor data into usable data products such as computer compatible tapes.

ISRO scientists, who launched India into the exclusive space club last July, are confident of developing before the end of the decade rockets for the geo-synchronous satellites, to orbit at an altitude of 36,000 km. Until India has a launcher capable of geo-synchronous orbit, it cannot put its own major application satellites in space at high altitudes. To do this, the Department of Space has a budget of Rs 8bn (£425m) for the next decade with plans to attempt a launch every six months.

It involves making adequate provision for developing in stages capability for geo-synchronous launches. A major step forward will be the use soon of liquid fuel in the second stage of the launch rocket, something that is being attempted after solid propellants have been mastered.

Not quite in the high-technology area but what is considered "appropriate technology" for Third World countries has found increasing acceptance in India and abroad. The National Research Development Corporation of India has, for instance, launched its processes for the production of anti-corrosive chemicals, carbon methyl starch, para-nitrophenol, potassium silicate and rust convertor and the like after collaboration with industry. Many of these processes have been exported to South East and Middle East countries.

Interested

In fact, the corporation says that its technology is being sought by the advanced countries also. Details of such items as solar water heaters, mica-based paints, insulating bricks and even TV tubes have been sent to interested European companies. A British company, Inter Zinc, is said to have sought Indian technology for the conversion of zinc metal into very fine powder.

While the Department of Atomic Energy claims to have developed designs for 500 MW nuclear reactors and other organisations are, for instance, investigating 500 MW plasma reactors based on coal gas, there are many gaps in such work. The public sector Bharat heavy electrical group has still to develop designs for matching 500 MW single turbines, although it should be able to do so soon with foreign collaboration. Only then will indigenous designs for 500 MW nuclear as well as plasma reactors be put to commercial use.

Officials recognise that more expenditure is needed on research and development, even though this has increased in the past few years. The Department of Science and Technology says that there are serious imbalances between the private and public sectors. Expenditure on research by the private sector increased by only 36 per cent from 1974-75 to 1976-77 while the public sector's share in the same period rose by nearly 80 per cent.

Much of the effort was concentrated in the electronics, pharmaceuticals, transport and chemicals sectors, so it is obvious that a concerned effort is lacking.

In quest of a consistently high quality in domestic products

CONSUMER DURABLES

K. K. SHARMA

CONSUMER manufactured goods can now be imported into India, but only on payment of a prohibitive 320 per cent duty that only the affluent in the country can afford. The market for all consumer durables and common items of consumption thus remains protected, as it has been since the mid-1950s when curbs were first clamped on imports.

The protection has led to the proliferation of a large number of units—running in many thousands since hundreds of items have been reserved for the small sector—and these turn out a surprisingly wide range of consumer manufactured products.

These vary from sophisticated electronic products which India started producing well after the rest of the world had made them. Calculators, digital watches and even mini computers are available for those who can afford them.

Variable

Like most other consumer products, these are well above the prices at which they are sold elsewhere in Asia. Equally, their quality is variable and, like many other consumer products, reliability of Indian-made products made solely for the domestic market is always a matter of doubt (this does not apply to items meant for export since these are subject to strict quality control: they are also cheaper because of various concessions offered by the Government).

Not everything that an Indian wants is available, although needs inevitably depend upon his degree of affluence. For the wealthier person in Bombay, now heavily dependent on smuggled goods, only his most rudimentary requirements are available from domestic producers although the much-sought-after video cassette recorder will be available to him from the middle of this year from at least two units which will import all components and assemble them, in a rare and inexplicable exception made by the Government.

For the middle classes, the variety is much more. Virtually all needs are taken care of by Indian manufacturing units in the large, medium and small sectors. Relatively expensive but increasingly used consumer durables like refrigerators, air-conditioners and the like are made mostly by the medium sector. This is almost constantly producing in excess because of the limited domestic demand. The quality is, by and large good, although this is again variable because competition has forced the manufacturers to cut frills and instal cheaply made components. But the Indian who can afford these itsems can get them easily and without many complaints.

For the relatively less-affluent, almost his entire range of needs is met by local industries. As the spending power of the rural areas increases with the growth of agricultural incomes, the standard of living of the average farmer (again difficult to define) improves, although this varies in different parts of the country.

The stereotype of a farmer who is not yet able to afford a tractor (also made in India) could be one who rides an obsolete model bicycle, possibly with a transistorised battery-operated radio set hanging over his shoulder, wearing cotton or even a polyester shirt and dhoti or pyjama, a rugged pair of leather shoes, smoking a cigarette lit with matches, a fountain pen stuck in his pocket and possibly carrying a recently acquired camera.

All these he will have bought from local dealers of Indian manufacturing units and he will have little reason to complain because he does not know what alternatives are available elsewhere.

Take the common bicycle, the most popular mode of transport. Indians now ride models that are only slightly more modern than those used in China but the price is high, ranging from Rs 450 for an ordinary bicycle to a sports model that can sell for as much as Rs 800—a high price for the average Indian. Little wonder that the installed capacity has remained virtually unchanged for years.

Guarantee

There are now 13 cycle-making factories, nearly all in the small sector, making just under 3.9m bicycles of almost uniform quality with a guaranteed life of seven years. This is just about the number that Indians buy and is surprisingly low considering the large population. The problem they face is getting spare tyres and tubes made by 21 units which face a constant raw material problem.

If the average farmer's dream is to own a bicycle, his wife probably wants a sewing machine. If she can afford it—the range is immense; even though only four major units make sewing machines — she will be happy because the quality is sufficiently good to make the item a popular export (mainly to Asian and African markets).

She will also have graduated from the stove that used cow dung or wood as fuel to various kinds of kerosene stoves, again made by a number of small and medium units as well as a model developed by the public sector Indian Oil Corporation that is energy-saving and much in demand.

The wife's urban counterpart will probably be using a relatively cheap pressure cooker, the peak in sophistication in the kitchen. Both can use brass or stainless steel utensils made by small units scattered all over the country.

Perhaps the best example of the range in price and quality of consumer products is provided by textiles and leather products. Textiles are made at one level by scores of mills in what is known as the organised sector (including the Government-owned National Textile Corporation which runs more than 100 "sick" units) turning out both synthetic as well as cotton and woollen materials.

On the other level, they are made by millions of handlooms assisted by central and state government organisations that clothe the majority of the population with products that cater for all pockets. The textile industry is so large that it acts almost as a barometer for industrialisation since it has the highest weightage in the production index.

The leather industry again is an ancient industry that provides employment to more than one million families who supplement the major shoe-making units of West Bengal and Uttar Pradesh by making nearly 28m pairs of shoes a year of all kinds. They now face the constraint of leather availability which is sought to be overcome by imports and increasing tanning capacity, mainly through Government-established facility centres for small tanners.

Good and consistent quality remains the main quest of the Government and consumers of all the manufactured products. Increasingly, standards are being prescribed and more and more goods now bear the stamp of the Indian Standards Institution, which has by now covered items in almost every sector.

But the poor consumer still remains a victim of innumerable imitators whose inferior products are close copies of better quality products and flood the markets.

INDIA XIII

THE EXTERNAL SECTOR

Policy changes may help to boost collaboration

FOREIGN INVESTMENT

DAVID DODWELL

INDIA IS no panacea for foreign investment. But over the next five years, the government and Indian entrepreneurs are likely to be seeking—and getting—more foreign investment than they have sought in the past 25 years.

A critical shortage of foreign exchange (the result mainly of a burgeoning oil import bill), a pressing need to invest heavily in such infrastructure areas as coal, steel and railways, and policy decisions which put emphasis for the first time on export-led growth, together mean that India will have an unprecedented need for foreign investment. One senior foreign banker predicts commercial borrowings of up to $10bn between now and 1985.

Traditionally, returns on investment in India are small—rarely more than 8-9 per cent. Policies aimed at forcing foreign-owned companies to dilute their overseas shareholding to 40 per cent have in recent years actually resulted in a net outflow of investment. Foreign companies, wary after their tangles over dilution, have been further inhibited by the tangle of bureaucratic procedures that face the potential investor. One Western economist wryly called this "paralysis by analysis." Curbs on repatriation of profits and dividends have also kept corporate investers away.

Less reluctant

But new factors make it likely that investors may be a little less reluctant in the future. First, stagnation or slow growth in home markets has made many foreign countries more attractive as investment propositions. Second, many companies say they see signs of long-term relaxation of Indian government policies which discriminate aganist foreign companies. They hope such relaxation will enable them to share in the benefits of eventually selling products in the potentially huge domestic market.

Finally, as a relatively stable country, India has been "overtaken on the negative side," as one banker put it, by growing instability elsewhere — particularly in the Middle East and in places such as Korea.

The level of foreign investment in India should not be underestimated. Although it accounts for a meagre 1 per cent of gross national product, there are over 1,000 companies from 34 countries investing in India in collaboration with Indians. Total investments are estimated at Rs 2.5bn ($319m). Multinational companies operate 125 subsidiaries in India—a significant number, even though it is substantially lower than the 161 companies operating subsidiaries in 1976.

The Indian Government is reasonably clear on the kinds of investment it is keen to attract. Standard Chartered Bank informs prospective investors: "The Government is very selective in its choice of foreign investment, which is encouraged only in those industries which have a high priority and in areas where foreign investment would result in sophisticated foreign technology becoming available to the country.

"Foreign investment is welcome primarily in manufacturing industries in which Indian enterprise is not fully developed and the products of which will help to increase foreign exchange resources."

This policy, well-intentioned as it is, has profoundly inhibited foreign investment. Typically, Dr. Guenter Krueger, executive director of the Indo-German Chamber of Commerce headquartered in Bombay, said: "Investments are stagnating and this causes some concern. If India's image as a destination for investment is bad, then all other business will be damaged. This stagnation in investment is more due to the policies of the Indian Government than to a lack of interest. Their attitude is always to say "No, but . . .," so the image created is very negative."

Similarly, Prof. D. K. Hansen, who in November headed a German economic mission to India, noted that it was "remarkable that there has been virtually no appreciable change in the volume of German investment in recent years." It has stuck around $60m he added: "It is well known, how much the selective licencing policy and above all the sluggish and protracted workings of Indian bureaucracy hinder co-operation with foreign partners." This from an official representative of a country that is India's third-largest foreign investor behind Birtain and the U.S.

However, straitened economic circumstances present the Indian's government with new economic imperatives. As the oil import bill has bulged to $7bn this year, accounting for about half of imports and consuming 80 per cent of export earnings, it has become clear that the balance of payments deficit can no longer be breached by remittances from workers in the Middle East or by bilateral and multilateral aid, which this year is expected to be a net Rs 7.5bn (just over $900m).

If has become clear that long-term solutions depend on clearing infrastructural bottlenecks curbing imports and stimulating exports. None of these objectives are likely to be achieved without substantial commercial borrowing from overseas.

Stagnant coal output, inadequate power supplies, an ageing railway network—among the most important sectors of the industrial infrastructure crippling growth—all call for heavy investment. But improvements require financial and technological resources India does not possess.

Import substitution is possible and could be useful: there is no reason why India could not be self-sufficient in fertilisers, steel, edible oils and cement. But self-sufficiency is possible only through a programme of massive investment in sophisticated plant and equipment.

So too with exports. India is unlikely to be competitive as an exporter without standards of quality and technology on a par with manufacturers in the West. To get such technology, Indian companies will have to attract foreign companies into joint-venture agreements or into selling their technology for a lump sum. The Indian government prefers the latter and has managed a number of successful deals. For example, the newly-opened Rs 16bn sponge iron plant at Paloncha in Andhra Pradesh involves the German company Lurgi passing on to its joint venture partner, S. I. India, entire documentation and design engineering. S. I. India will in the future be able to build identical plants without resort to Lurgi.

Foreign Collaboration

JANUARY-NOVEMBER 1980

	No. of collaborations	Value $m
U.S.	98	13.3
Japan	32	19.1
Sweden	6	17.1
Italy	20	9.8
UK	95	7.3
France	19	7.3
W. Germany	86	6.5
Total	444	35.8

Collaborations by industrial sector

Industrial machinery	101
Electrical equipment	85
Chemicals	47
Transport	39
Metallurgy	29
Mech. engineering	29

Defence contracts

Similar collaborative agreements have been reached on many defence contracts—such as sale of Jaguar aircraft from Britain.

But to boost such collaborative arrangements, a number of policy changes have recently been announced. New foreign banks have been allowed to establish themselves in India: four have opened branches while three more have opened representative offices. A further 25 are waiting in the wings.

The government has given its stamp of approval to foreign investment by Middle Eastern investors even in the equity of local companies. A total of Rs 400m has been attracted so far, in enterprises as varied as paper manufacture, fertilisers, petro-chemicals and hotels.

Multi-national giants, reviled over recent years by successive Indian governments, seem likely to be invited back on a selective basis. The government is particularly keen to win their involvement in exploration for oil and gas. Exploration proposals from 35 oil majors are being examined by the government at this moment.

It seems also that India's two export processing zones, which have attracted only a modest amount of foreign investment, are to be granted new privileges in a bid to attract new ventures.

During the first eleven months of 1980, the government approved 444 foreign colaboration proposals (compared to 267 in the whole of 1979. Foreign investment during that period reached Rs 86m—more than 50 per cent up on 1979. Numerous major investment opportunities are likely to be taken up in the near future.

Research by one major foreign bank reveals the following major projects now being considered:

- Three naphtha crackers, costing a total Rs 20bn—of which the foreign exchange component is likely to be Rs 5bn.
- Three aromatics complexes, worth Rs 1.8bn each, with numerous downstream industries based on them.
- Eight fertiliser plants, worth about Rs 8bn each.
- Four superthermal power projects and four super hydel plants, each costing about Rs 8bn.
- Comprehensive, but so far unspecified, plans to modernise India's coal industry.
- Planned Rs 14bn spending on modernisation of India's railways.

In addition, major investments and collaborative efforts can be expected on steel projects, in aluminium and cement plants, in the electronics industry and the motor industry: the range of investment possibilities is immense.

India's credit rating is excellent at the moment. International bankers feel that India is heavily underborrowed. But it should be assumed that if India tried to raise funds in the international money markets for even a majority of these projects at the same time, a minor crisis would ensue.

The stage is set for India to mend broken fences with foreign banks and commercial investors. Each side has a great deal to gain. In the words of the recently retired Indian chairman of Hindustan Lever, Mr. T. Thomas: "We have to shed some of our blinkers and see the world as one of opportunities for a gifted nation to exploit rather than one of imaginary snares set by unfriendly tribes. . . Let us not shut the world out lest the world shut us out."

India prepares to take on its biggest-ever Euromarket loan

OVERSEAS BORROWING

KEVIN RAFFERTY

BANKERS AND officials in Bombay, New Delhi, Hong Kong and Paris are putting the final packaging and legal touches together for the signing next month of India's biggest Euromarket loan, a $680m 10-year offering for a French-aided aluminium project in Orissa State.

The loan, a full-bodied plunge into the international capital markets, is an important departure in several ways. It took a lot of argument before the Government changed its policy to permit borrowing on the capital markets at expensive international interest rates. Even today there is a conservative lobby fighting hard and saying that India should not be beholden to the international bankers. In the end the loan is a recognition of the grim financial and economic fact of life that India is running headlong towards a balance of payments crisis.

These hard facts suggest that India will have a balance of payments gap of the order of $1.7bn or more this year which will rise to $3.5bn a year by 1984-1985 according to Finance Ministry projections. Foreign economists think that the Finance Ministry is being optimistic and that by the middle of the decade the gap is more likely to be about 5bn a year.

Immediately, the figures may not look too bad as the country's foreign exchange reserves are still just below Rs 50bn or equivalent to four to five months' imports. The Finance Minister, Mr. R. Venkataraman, estimates that the reserves will be drawn down by about Rs 4bn to 5bn in the current financial year ending in March. But such a low figure hides a much larger deficit because India has drawn Rs 8.14bn (comprising Rs 5.4bn of Trust Fund accommodation and Rs 2.74bn of compensatory financing) from the International Monetary Fund and these drawings have cushioned the fall in reserves.

All the signs are that the situation will worsen rapidly. Imports have risen fast. They were Rs 82bn last year and the Government had set a target of Rs 100bn for this year, but that looks sick in the light of oil and other essential import price rises. The latest estimate is that the import bill in 1980-81 will exceed Rs 115bn and may reach Rs 120bn.

Trade deficit

On the other hand, export growth has been slow and India's exports may not reach the target of Rs 71bn for the current year. At any event, Indian economists are reconciled to at least a doubling of the trade deficit which was Rs 22bn last year.

There is a general expectation, too, that other receipts, if not in decline, will level off. Remittances from Indian's working abroad have been a major factor in helping the Indian reserves to grow to healthy amounts, allowing good coverage of imports from the semi-permanent crisis levels of Rs 5 to 6bn in the mid 1970s. Press reports speak of a sharp drop in remittances.

Officials, however, say there has been no noticeable decline yet and expect total gross invisible receipts to total $3.5bn in the year. (Remittances are not isolated in the official figure.)

Nor do officials worry quite so much as outside economists about the disparity between Indian and international interest rates. Indians working abroad have their own family and personal reasons for sending funds home, even if it would pay them to keep their earnings in high interest paying bank accounts abroad.

However, the fall in general economic activity abroad and high inflation rates cutting into the disposable incomes of Indians abroad suggest at least a levelling off in remittances over the next few years.

Foreign economic assistance, for long important in topping up Indian domestic resources and crucial to balance of payments support, is also expected to level off in the next few years. At the last World Bank consortium session in 1980, gross aid commitments were $3.4bn, hardly changed from the previous year. With the entry of China to the World Bank and with less generous provision of funds by the rich countries, the soft loan funds to which India has become used will be more fiercely fought for.

At the same time, India's trade deficit seems likely to grow. Imports of petroleum oil and lubricants alone account for getting on for half of the total bill, and supplies of goods like edible oils, fertilisers and steel, essential to keep the economy ticking over, make up much of the rest.

Exports by comparison have proved difficult to stimulate. In spite of diversification, a large proportion of India's exports are of traditional goods. Other, by Indian standards more sophisticated, products are not sophisticated enough by the values of a world used to the very latest technology.

In engineering and machine tools, where India has made breakthroughs, delays in delivery increased by failings in India's power and transport systems have only added to the burdens of breaking into sluggish world markets. So the Government is having to think hard about new sources of funds.

Attempts are being made to attract OPEC funds to India, including the licensing of several Middle Eastern banks in Bombay.

The Orissa aluminium loan indicates that the Government is prepared to consider Euromarket and other commercial borrowings, though these will probably be limited to projects that will save foreign exchange.

Some economists have suggested that India does not need to resort to commercial borrowing when the country has not exhausted its IMF drawings, when World Bank loans can be obtained at 9.25 per cent and when several depressed industrialised countries would be more than happy to arrange cheap export credits if India would buy their capital goods. Such sources could be worth up to $10bn.

But there are prices to be paid for all loans, and at the moment India and the World Bank are having their differences. A $250m World Bank loan for a fertiliser plant was

CONTINUED ON NEXT PAGE

Gulf war aggravates widening trade gap

TRADE BALANCE

DAVID DODWELL

INDIA'S TRADE deficit has widened steadily in recent years, in part because of the rising cost of oil imports, but also because export growth has been sluggish.

Provisional figures for 1979-80 put exports at Rs 60bn ($7.71bn), just 4.8 per cent up on revised figures for the previous financial year. At the same time, imports have swollen to Rs 82bn ($10.54bn), 20.8 per cent up on the previous year. As a result, the deficit on visible trade widened from Rs 10.9bn ($1.4bn) in 1978-79 to provisional Rs 22.3bn ($2.87bn) in the year under review.

The surge in imports is *largely due to the rising cost of* oil. While imports remained constant at about 18.5m tonnes, the price for oil soared from Rs 17bn ($2.18bn) (25 per cent of imports by value) in 1978-79 to Rs 33bn ($4.24bn) in 1979-80 (40 per cent of imports).

Among the other most costly imports, only the bill for iron and steel rose—by 50 per cent to Rs 4.4bn ($565m) in the nine months to December 1979. Machinery imports cost 20 per cent less, while the bill for *edible oils slipped by 30 per* cent.

The situation is more complex for exports, mainly because no one item dominates the scene, and because no firm trend has been established over the past three years. The leading export income earner in 1978-79, precious stones, showed a marked decline in the nine months to December, 1979, mainly because of higher costs and a recession in the world diamond market.

There was concern over the 17 per cent fall in earnings from engineering products comparing the first nine months of 1979-80 with the same period a year earlier. The infrastructural collapse during 1979, which badly affected power supplies and basic inputs like steel, and also immobilsed ports and choked shopping, is thought to be to blame.

While demand for tea grew, prices were poor, so earnings improved only marginally during 1979. Leather products on the other hand were in strong demand — mainly finished leather goods. Earnings for the nine months to December 1979 were RS 33bn ($4.24bn)—52 per cent the corresponding period of 1978.

The decline in demand for cotton fabrics was reversed in 1979. Sales rose by 19 per cent, showing export income of RS 20bn ($2.57bn) in the first three quarters of 1979.

Recent unofficial reports imply that the trends set in 1979 have not been maintained in the first half of the 1980-81 financial year. Leather products and marine products—both buoyant in 1979 — have slipped by more than 20 per cent, while engineering goods and tea have met with improved demand.

Import trend

Excluding oil and oil products, the import trend in 1979 was closely linked with the country's infrastructural problems. Iron and steel imports, at Rs 44bn ($5.65bn), for the first nine months of the financial year, were 52 per cent above the corresponding period in 1978-79 — a clear response to short falls in domestic steel production.

The import of precious stones fell by 33 per cent to Rs 24bn ($3.08bn) in the nine months to December 1979 — inevitable in view of the sluggish export demand. Imports of vegetable oils and fertilisers also fell by 34 per cent and 16 per cent respectively. Machinery imports fell by 19 per cent to Rs 46bn ($5.91bn) during the same period — reflecting the depressed state of the industry.

The changes in direction of Indian trade were dominated by the country's urgent search for oil. Iraq, India's main oil supplier until the war with Iran which began in the summer, boosted exports to India by 45 per cent to Rs 58bn ($7.45bn) for the first three quarters of 1979. This made Iraq India's second most important supplier.

India's leading source of imports continues to be the U.S. Imports rose 5.2 per cent to Rs 59bn ($7.58bn) during the period under review. But a surge in Indo-Soviet trade had already begun to emerge in the figures in 1979—imports leapt by 48 per cent to Rs 44bn ($5.65bn) and recent agreements to purchase extra Soviet oil and boost bilateral trade could soon make the USSR India's primary source of imports.

Britain saw a steady 24 per cent growth in exports to India in the nine months to December 1979, taking the value to Rs 46bn ($5.91bn). West German exports slipped by 5 per cent to Rs 44bn ($5.65bn), while those from Japan were *unchanged at Rs 41bn* ($5.27bn).

The U.S. remained India's prime export market. While exports stagnated at Rs54bn ($6.94bn) for the nine months to December 1979, the U.S. still imports Rs8bn ($1.03bn) more than any other country. Japan, importing 26.7 per cent more from India during the period under review, stood in second place with Rs46bn (5.91bn). Britain imported Rs41bn (5.27bn) of goods from India, 11.4 per cent up on the year. Exports to the USSR and West Germany were buoyant, however. Exports to the Soviet Union increased by 27 per cent to Rs39bn ($5.01bn), while those to West Germany rose by 24 per cent to Rs24bn ($3.08bn).

Over the past year, the trading scene has changed rather dramatically—though no figures have been published which adequately express the change. Most important, the war between Iran and Iraq has brought trade with these countries to a trickle. Over 60 per cent of India's oil came from these two countries, so there has been a hasty search for new sources of supply.

The Soviet Union has agreed to boost supplies from 1.5m tonnes to 2.5m tonnes. OPEC members like Saudi Arabia, Kuwait, Algeria and Libya have promised substantial supplies. Non-traditional suppliers like Mexico, Venezuela and Nigeria have offered supplies, and there have been discussions with Indonesia.

Trade with traditional trading partners like Britain, the U.S. and West Germany is likely to show steady but undramatic growth, with India continuing to rely on the West for its imports of high technology capital equipment. Indian exports to the West will continue to be dominated by traditional goods like textiles, leather goods, and tea, but there should be a steady increase in purchases of machinery and engineering goods.

Recession and a protectionist mood in the West has prompted India to seek new markets—particularly in West Asia and Africa.

Exports to the Middle East stood at a modest Rs 66bn ($8.48bn) in 1978-79, with no strong growth since then. Biggest purchasers are Saudi Arabia (imports Rs 1.3bn ($167m) in 1978-79), the United Arab Emirates (Rs 1.3bn $167m) and Kuwait (Rs 1.2bn $154m).

Sparse

In Africa, trade is rather sparse. *In 1978-79*, exports were worth Rs 3.4bn ($463m) and imports worth Rs 1.5bn ($193m). The leading purchasers of Indian goods were Egypt, with Rs 595m ($76.5m), Sudan and Libya, both with Rs 440m ($56.5m), Tanzania and Kenya with Rs 360m ($46.3m) and Nigeria with Rs 270m ($34.7m).

In 1978-79, the only significant exporter to India was Zambia Rs 480m ($61.7m), though during the past year, Nigeria has emerged as a supplier of oil and *other raw materials*.

Trade with China is currently being explored, despite poor diplomatic relations. It is though that China would be interested in buying Indian textiles.

India's widening trade gap is breached to a certain extent by invisible earnings — mainly remittances from workers in the Middle East. These have arisen steadily in recent years, accounting for about Rs 16bn ($2.06bn) a year over the past two to three years. A shadow of uncertainty has been cast over future remittances however, following the Iran-Iraq war. A sudden surge of remittances in September and October last year—reaching Rs 6bn ($771m) a month—is thought to mean that many Indian workers have beaten a hasty retreat in face of the conflict. Whether they return, if and when the conflict subsides, cannot yet be assessed, but there is a view in Government circles that remittances will diminish in the year ahead.

New plan heralds huge Soviet growth

DIRECTION OF TRADE

DAVID DODWELL

NEWSPAPERS throughout India on December 8 were brimming with accolades, and all on the same theme: "Heartiest Welcome and warm greetings to his excellency Leonid Brezhnev. Your visit to the land of Gandhi and Nehru will further enlarge the avenues of Indo-Soviet co-operation *branching* our wider and newer pastures, blossoming forth under the bright canopy of friendship of the two great peoples."

The pastoral idiom was appropriate for a leading tobacco exporter from the Guntur region in South India. For page after page, exporters to the USSR sang the Soviet President's praises: from leather tanners to export houses, from woollen and cotton industries to aircraft manufacturers and heavy industrial houses. Even film companies and printers joined the fray.

Most succinct of all was G. A. Jolli, "finest gloving manufacturer and supplier to the USSR," who bought one-third *of a page of advertising space* to say:

Welcome
BREZHNEV
· Long live Indo-Soviet Friendship.
· Long live Indo-Soviet trade

The praise may often have been fulsome, but it bore witness to one overriding fact: the Soviet Union is fast becoming India's leading partner in trade. From a base of *just $1.6m total trade in* 1953, trade in the current financial year is expected to pass $2bn, about on a par with U.S. trade. In 1981, trade with the Soviet Union is expected to overhaul even U.S. trade.

President Brezhnev's visit to India—his first since 1973—was rightly seen as a watershed. A new five-year trade agreement was signed. India's sixth Five Year Plan, due to begin a year ago, has been dovetailed to start at the beginning of this year, in unison with the plans of the Soviet Union and other Comecon countries.

Significant

The President's visit marks a significant quantum leap in trade, mainly because Moscow has stepped in with promises to supply huge extra quantities of oil—crucial to India since the Iran-Iraq war severed supplies of up to 60 per cent of the country's imported oil.

In return, India will probably supply the Soviet Union with food-grains mainly rice — which are equally urgently needed after this year's poor grain harvest in the USSR.

It is widely felt in the West that the Soviet Union has nurtured trade with India for largely political reasons. While this may in certain respects be true, it seems the two economies are highly complementary, providing each with a genuine need for the other's produce.

Mr. Pranab Mukherjee, India's Minister of Commerce, provided the key to understanding the rapid growth of Indo-Soviet trade when he recently wrote: "The distinctive feature of Indo-Soviet economic co-operation in the past 25 years has been the Soviet Union's willingness to assist India in key sectors of the economy in India's efforts to achieve *economic self-reliance.*"

The Soviet Union has provided vast sums of money for the development of India's steel industry. It has aided India in coal mining and in exploration for oil. It has provided power plants, will aid aluminium plants, and has helped the country to establish its own drug industry—"an insurance against blackmail by the multinational drug houses." In all, the USSR has invested in 70 major projects in India.

Joint Indo-Soviet enterprises make 35 per cent of India's steel, produce 20 per cent of its power, and extract 80 per cent of its oil. They refine 30 per cent of India's crude.

India inevitably imports large quantities of Soviet machinery for use in the steel, coal, power and heavy industrial sectors. But such imports accounted for only 13 per cent of Indian imports from the USSR in 1979-1980. Industrial materials like asbestos, fertiliser, newsprint and non-ferrous metals accounted for a further 17 per cent.

By far the largest proportion —65 per cent—was accounted for by oil and petroleum products. This proportion will no doubt grow still further following Soviet agreement to boost oil exports from the current level of 1.5m tonnes a year to 2.5m tonnes in the coming year, and to 4m tonnes by 1983.

In return, the Soviet Union is a major importer of India's primary commodities. It absorbs 17 per cent of India's tea exports, 24 per cent of its coffee, 22 per cent of its tobacco, 20 per cent of its jute, 33 per cent of its mica and 30 per cent of its cashew nuts.

As India has industrialised and its heavy industries have matured, so it has exported more and more manufactured and engineering products to the USSR. Along with heavy machinery and mining equipment, India is selling freight containers, electric motors, fork lift trucks, aluminium cables, car and storage batteries and hand tools.

Among new exports are cosmetics, machine tools and surgical instruments. In addition, Soviet traders are buying a wide range of Indian handicrafts and carpets. Fruit juices are also exported in large quantities.

As India has exported more industrial and manufactured products to the Soviet Union, so *the balance of trade has shifted* in India's favour. In the four years following the first Indo-Soviet trade agreement in 1954, the USSR exported goods worth $155m to India, while buying back just $66m worth. Trade doubled during the next four year period while the favourable Soviet balance shrank to $56m.

But since 1964, the trade balance has shifted in India's favour. During the period of the fifth trade agreement, which *ended in 1980, trade had* expanded to $6.59bn with a balance in India's favour of $880m.

INDO-SOVIET TRADE

	Imports from USSR	Exports to USSR	Total trade	India's trade balance
1st trade agreement 1954-58	$155m	$66m	$221m	—$79m
2nd trade agreement 1959-63	$303m	$246m	$549m	—$56m
3rd trade agreement 1964-70	$1.13bn	$1.28bn	$2.41bn	+$152m
4th trade agreement 1971-75	$1.11bn	$1.99bn	$3.1bn	+$882m
5th trade agreement 1976-80	$2.84bn	$3.75bn	$6.59bn	+$881m
6th trade agreement 1981-85	—	—	$12bn*	—

* Estimated.

The sudden leap in Indian imports of Soviet oil is likely to shift the balance back in *Moscow's favour.*

In theory, such imbalances should not occur. One of the great advantages of trading with the USSR has been Soviet willingness to conduct trade in rupees. Linked with this is a commitment to balanced trade. In theory, any purchases of Soviet goods should be matched by Soviet purchases from India. In practice, balanced trade has been difficult to maintain.

Soviet arms

It should also be noted that published trade figures take no account of Indian arms purchases from the Soviet Union. If these were taken into account, then India would be in permanent deficit to the USSR, since most of India's military hardware comes from the Soviet Union. This ranges from MiG jets to Antonov transport aircraft; from the *most modern Soviet tanks*, TU 72s, to SAM missiles; from ground radar defence and early warning systems to small arms.

The scale of arms purchases is well illustrated by the widely publicised sale of arms worth more than $1.6bn and including MiG 23s and TU 72 battle tanks —agreed in June last year. India will pay for the arms out of a loan provided on very soft terms by the Soviet Government.

The rapid growth of trade with the Soviet Union does not mean India's industrialists are turning their backs on trade with the West. While the public sector industries which account for a major proportion of India's industrial output often find it easier to deal with Government-run counterparts in the Soviet Union, many of the most sophisticated technologies and most efficient industrial processes can only be obtained from the West.

Mr. Pranab Mukherjee, India's Commerce Minister, alluded to this fact in a rather backhanded compliment to Soviet industry when he wrote recently: "The quality of some of the machinery and equipment manufactured in the USSR compares favourably with world standards." Clearly he feels that the quality of some machinery does not compare well.

The new trade agreement, signed during the President's visit, envisages technical collaboration on prospects in India and in third countries worth more than $8bn over the next five years, and predicts a quadrupling of trade between now and the end of the decade. If the exchange of Soviet oil for Indian foodgrains takes off as expected, then this is probably a conservative estimate.

Euromarket loan

CONTINUED FROM PREVIOUS PAGE

allowed to lapse after the bank objected to India's changing of the consultants for the ammonia plant. Mrs. Indira Gandhi herself termed the bank action as "interference" and said that India would not put up with such "hankypanky".

The framework document for the Sixth Five Year Plan (1980-85) took a cautious approach to commercial borrowings. "The climate for concessional aid, both bilateral and multilateral, is also not very favourable. There is undoubtedly considerable excess liquidity in the international capital markets and if we have sound bankable projects it should be possible to mobilise moderate amounts by way of commercial borrowings.

"However, it must be emphasised that borrowing on commercial terms with relatively short maturities can be resorted to only if the projects yield a return higher than the interest cost of the debt.

"Moreover, international capital markets usually categorise countries according to country risks, and if India's external reserves decline sharply or debt service ratio goes up significantly the attitude of commercial banking abroad could change suddenly. Thus, as of now it would be prudent to count only on moderate amounts of commercial borrowings."

Some Indian economists worry that the Government controls and procedures will prove too cumbersome and slow to take advantage of foreign borrowings. The economy could benefit and be made more competitive by the infusion of foreign capital technology and knowhow. But foreign companies have been discouraged from going to India by exchange control regulations and by slow bureaucratic procedures encouraged by Indian industrialists who do not want to face foreign competition.

Multinational companies have the whole world map to look at and have found more appetising markets than highly-controlled India. If India is now keener to attract capital, the controls are still in place. The new Gandhi Government has said it is prepared to waive some of the exchange controls to attract OPEC capital, "but what expertise do the Arabs have to offer? We should be looking to the West," was the reaction to this.

If the main beneficiaries of foreign capital and foreign borrowings are to be public sector corporations which have been notoriously slow and inefficient in implementing projects, there will be a double danger of borrowing for the wrong or outdated machinery. "The greatest barrier to development in India is the Government of India itself," commented one distinguished economist.

ENERGY AND CHEMICALS

Shortages could bring industrial disaster

ELECTRIC POWER

PEARL MARSHALL

The nuclear power plant at Rajasthan. Rajasthan 1, Canadian-built, has been opruting for six years. A second unit at the site—built by India—is about to be commissioned

INDIA'S POWER supply position has been getting worse during the past couple of years. Last year the "worst drought in more than 60 years" was blamed for the low use of capacity, especially as the reservoirs of hydro-electricity projects had drained to alarming levels. But this year, despite good monsoon rains, the situation has not improved.

Power shortages are so severe that investors are not interested in setting up new projects in West Bengal, the Minister of State for Industry, Dr. Charanjit Chanana complains. In West Bengal's state capital of Calcutta various chambers of commerce think that large-scale lay-offs of labour will be inevitable if the power position does not show some definite improvement soon. The story is the same in several other states.

Power plant capacity use throughout the country continues at an all-time low of around 45 per cent, transmission losses are at least 20 per cent, construction of new plants is nearly always behind schedule, with cost overruns and partial breakdowns at record levels.

Every worker in the power sector is well aware of the reasons, quoting managerial apathy and mismanagement, widespread labour unrest, poor maintenance of plant and equipment, and political interference.

A favourite scapegoat is the Government-owned Bharat Heavy Electricals (BHEL), which last year provided around 86 per cent (1,544MW) of capacity commissioned in the country. BHEL is involved in work at 64 sites involving a total of 8,494 MW of capacity at different stages of progress.

The states are now shunning BHEL and clamouring to import power plants for speedier implementation of projects.

"The order book position in respect of 200 MW sets is far from satisfactory," complains BHEL chairman and managing director, Mr. K. L. Puri in the company's latest annual report, adding that the 110 sets at the Hyderabad plant in Andhra Pradesh "are no longer being ordered" at all.

Dr. Sethna: Economics of nuclear power proven

Dr. Ramanna: to devise a crash programme

Long wait

The states, however, will have a long wait. "It's like a dying man with his hand stretched out for help," says a Western power industry observer. "Even if the help came, it would do no good."

The Government last month denied the states blanket permission to import power equipment. Even if the states could do as they wished, in the numbers they wished, they would not be able to use them satisfactorily.

The industrial infrastructure is not capable of supporting a large increase in capacity at the moment. There is a vicious circle of power shortages contributing to coal shortages which further exacerbate the power shortages. Everything is compounded by transportation bottlenecks.

Coal supplies to power plants are always a "hand-to-mouth" operation and the New Year started off with the news that stocks at many thermal plants were only equal to one day's supply.

The decision to avoid imports of power equipment as much as possible was announced by Finance Minister Mr. R. Venkataraman on the grounds that the country had made an enormous investment in establishing indigenous manufacturing capability (the BHEL factories).

Additionally, the country's foreign exchange position was very tight now that more than 70 per cent of total export earnings went on oil, he pointed out. However, he did concede that when the country's annual plans were discussed, the number of plants the domestic units could manufacture would be reviewed and any additional requirement could be imported. This policy would be applicable to all states, he said.

Well placed sources in both the Finance and Energy Ministries are loath to say how much India will spend abroad on power equipment in the next two or three years. Power Department Secretary Dharam Vir Kapur would allow, however, that at least 10 500MW thermal units would be put out to global tender in the next few years.

Although power generation has deteriorated and things could get worse before they get better, there is hope on the horizon.

Mrs. Gandhi's energy officials have rolled up their sleeves and, only a few months after she has unexpectedly regained her position, are tackling the problems with a renewed sense of realism and dynamism.

The thrust is basically on three fronts to squeeze the maximum out of existing capacity. The most important development occurred in July when every power station in the public sector launched a "Betterment Programme." A team of four or five engineers associated with each station was charged with making up a practical list, item by item, of equipment needing attention: giving time limits for repairs, and pinning responsibility for implementation on particular individuals.

The scheme has been augmented by a roving team of engineers who interact with the power station teams, and a second team of engineers at top management level who discuss increased efficiency and technological responsiveness with the state electricity boards.

Mrs. Gandhi herself has penned letters to the various states' chief ministers in an attempt to make them conscious of the importance of this approach.

Improvement

The other two areas of help are in instructing state agencies how better to plan, manage and construct projects within time schedules and how to improve the quality of equipment purchased by tying suppliers down to more stringent contractual obligations.

Mr. Kapur claims there has already been an improvement in power generation during the past two months and statistics appear to be bearing him out. After a two-year slide in generating efficiency, however, industrialists would rather give the Goverment a little more time before tacitly agreeing that the situation is improving.

Equally important is the work that has been done in the past two months on development of a 15-year national power plan, to be updated at the end of every Indian Five-Year Development Plan.

It identifies the mix of hydro, thermal and nuclear power to be pursued, suggests technically viable sites and puts everything into a time frame so commissioning of new capacity matches the demand developing in the country.

"Probably in the next two months or so we will be ready with the broad plan," says Mr. Kapur, pointing out that with short-term planning, hydro-electric generating capacity was being neglected in favour of small thermal plants which could be installed quickly.

In the current Five-Year plan, the aim is to add about 20,000 MW capacity, a major portion (15,500MW) of which will be thermal plant, including less than 1,000MW of nuclear, and the rest hydro. In the following five years, however (1985-90), hydro capacity will play a much larger role, accounting for perhaps as much as 13,000 MW of the 28,000MW envisaged.

India's strong motivation to become self-reliant in just about everything it does, has undoubtedly been a major factor in its slowness and difficulty in gearing up the power sector.

Whereas technological advances in power equipment during the last 30-40 years in industrially developed countries has encouraged large scale introduction of nuclear reactors and conventional thermal generating units up to 1,300 MW, the main thrust in India has been to master the 200-MW unit.

"It's where we were in the mid-1940s," says a U.S. nuclear industry source.

BHEL has been introducing the 210 MW thermal unit into the Indian power system since its collaboration with West Germany's Kraftwerke Union, the Siemens subsidiary, in 1975. In previous decade (1965-75) it had been collaborating on a Russian 120-MW set, a turbine generator it still produces at its Hyderabad factory.

The 15-year Siemens deal covers the manufacture of turbine generators up to the 1,000 MW range.

As the first batch of 210 MW units has only been undergoing commissioning during the last couple of years, India is still having teething problems which BHEL claims "is not unusual or unexpected during the first year of operation of any sophisticated equipment of a new design or rating."

The country is now in the process of installing its first 500 MW unit at Trombay near Bombay on the west coast, and has finalised three contracts covering 11 further units of this size—eight with BHEL and three with Ansaldo of Italy. When the Soviet President Mr. Brezhnev visited New Delhi in December, the Russians also undertook to supply two 500 MW plants at a pit-head site in the state of Madhya Pradesh, to help relieve the severe power problems.

Although India's grid system can only currently take large 500 MW units in three states—Maharashtra, Gujarat and Madhya Pradesh—a grid strengthening programme will be completed in time for commissioning 500 MW units elsewhere, Mr. Kapur claims. The southern grid may not be sufficient until 1985 or thereafter, while the eastern grid will take a further few years.

On the nuclear plant side, at least 10 more reactors of 235 MW will be built before moving on to 500 MW units in the 1990s.

It is in the nuclear field more than anywhere else that India's indigenous power generating expertise will be going through a proving ground.

The country's first three plants were supplied by the Americans and the Canadians. The U.S.-supplied twin 210 MW boiling water reactors at Tarapur, north of Bombay, have been operating since 1969, and the Canadian-built Rajasthan-1 220 MW pressurised heavy water reactor has been in commercial operation for more than six years."

The second unit in Rajasthan, originally due for completion in 1975, is just now being commissioned. It is the first plant the country has built indigenously. This followed the pull-out of the Canadians who objected to India's peaceful nuclear explosion in 1974.

Impetus

Also under construction are twin 235-MW reactors at Kalpakkam, near Madras (about three to four years behind schedule) and similarly-sized twin reactors at Narora in the state of Uttar Pradesh, perhaps even more behind schedule.

If India can prove over the next few years that it can generate nuclear power from its own indigenous plants in a reasonably economic fashion, it will give other developing countries the impetus to do likewise. In effect, India has become the proving ground for the Third World.

"Nobody doubts the capability of the country's top engineers," says an American nuclear industry source. "They are of international repute. But does India have the necessary infrastructure and the will-power and discipline to build nuclear power stations according to their high specifications?"

There is no doubt India can do the job, Dr. Homi Sethna, chairman of India's Atomic Energy Commission, says. He points out that 90 per cent of the nuclear equipment is now being manufactured in India which proves the infrastructural facilities are there. Quality control is also efficient. The basic problems troubling him, as they do the whole industry, he says, are the long delays in equipment manufacture and construction of plant.

He admits there have been lots of teething troubles with the Rajasthan plant. "We had to re-do Rajasthan-1 completely when the Canadians pulled out," he says. "It was full of design inadequacies. This work is still going on. Where Rajasthan-2 is concerned the Canadians walked out on us, so we had to complete the plant ourselves."

Dr. Sethna feels the proof of the pudding will come not with the operation of the Rajasthan reactors but with the Madras and Narora reactors which incorporate all the lessons learned in the first plants.

On a cost basis, the economics of nuclear power in India are already proven, says Dr. Sethna. Although capital investment is more where nuclear plant is concerned, nuclear generated electricity is selling at 15 paise per kilowatt hour in Maharashtra state compared with 21 paise from thermal and hydro-electric plant in nearby Gujarat State. Even the Rajasthan plant is selling electricity at 20 paise compared with nearby conventional plant at 23 to 26 paise.

One of the main achievements many fail to recognise, Dr. Sethna believes, is India's complete control over the entire nuclear fuel cycle—not just electricity generation.

Full control

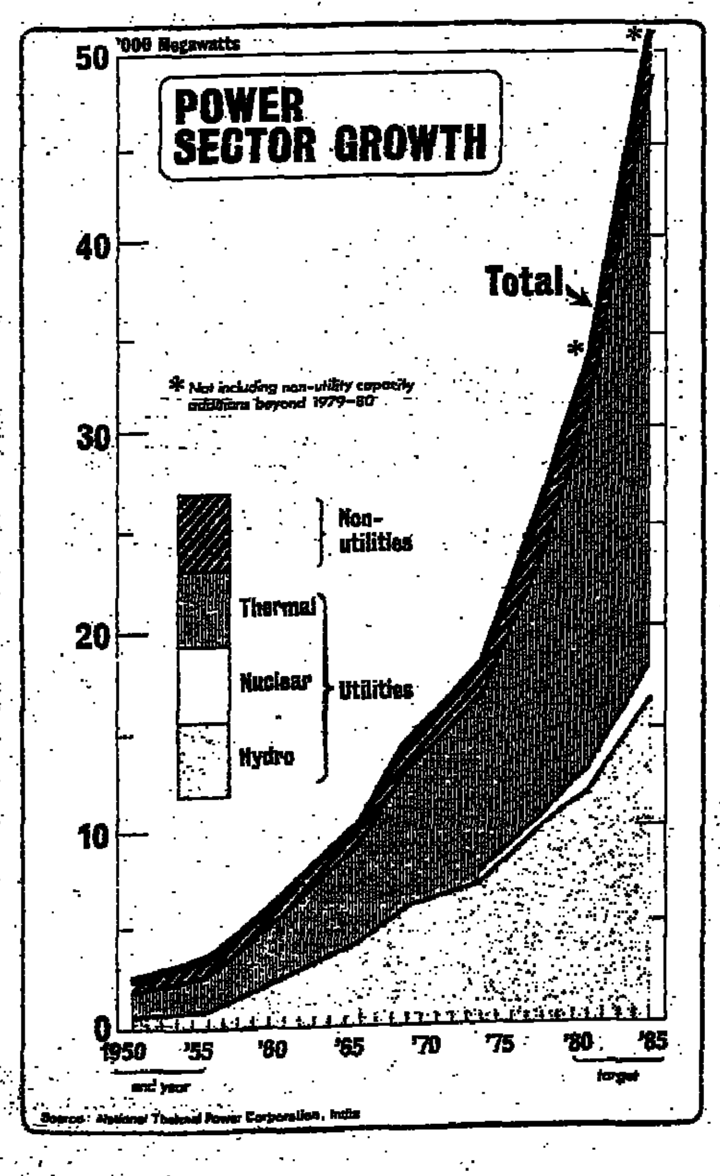
"Although the currently operating nuclear capacity is quite small, India is the only country to have full control over the fuel cycle (uranium mining and milling, fabrication of fuel elements, reprocessing of spent fuel elements and storage of waste) apart from major nuclear countries such as the U.S., Russia, France and Britain," he points out.

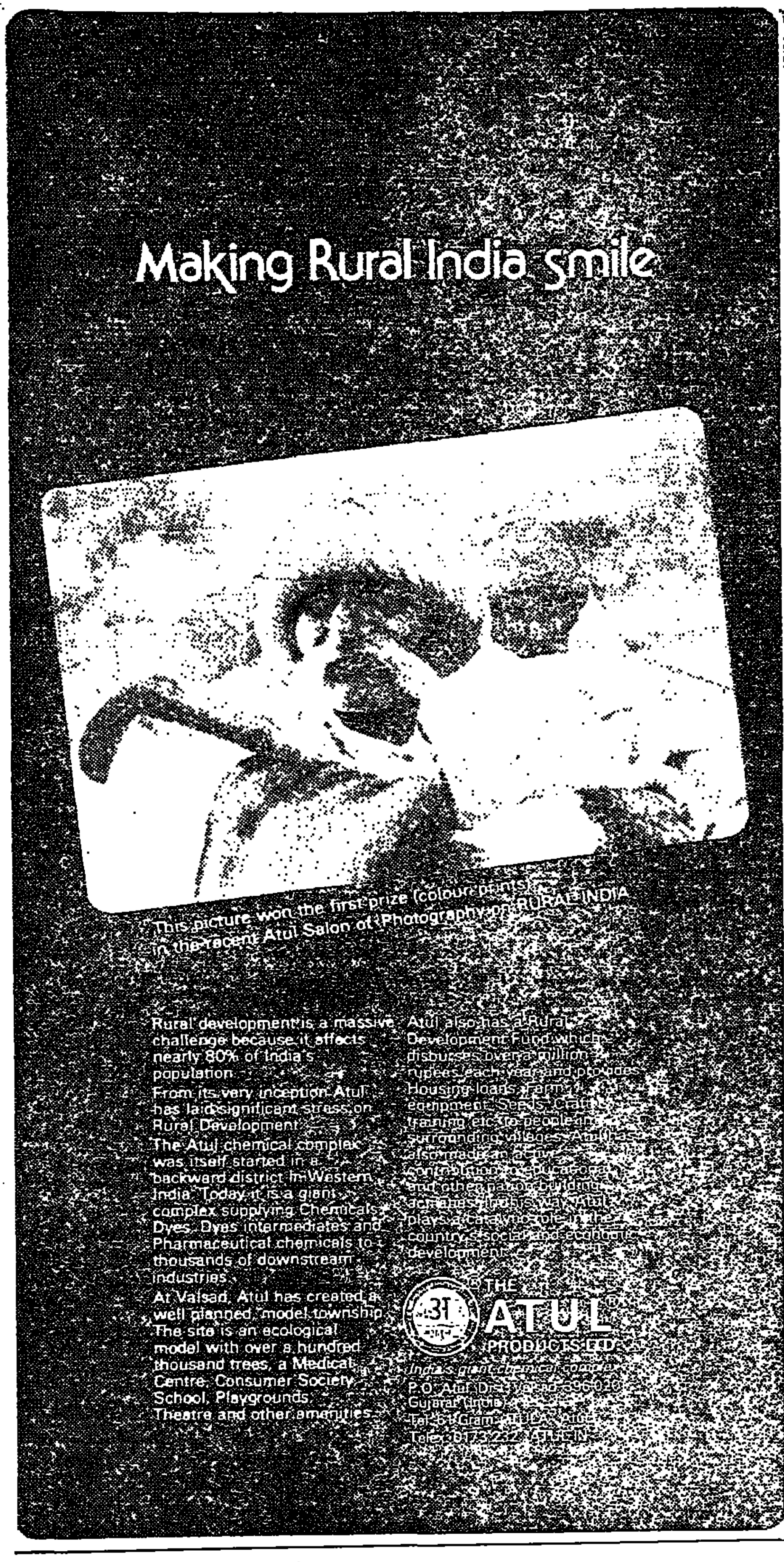
Perhaps the most time consuming activity relating to nuclear power development is the need for an extremely high degree of self-reliance. This has become a very emotive issue because of the constant hassle over enriched uranium supplies from the U.S. for the Tarapur plant.

India is well aware that the U.S. Republican party plank stated there should be no more fuel shipments to Tarapur, and is already visibly gearing up to solve this problem by working to produce its own special mixed-oxide fuel which can be used in Tarapur instead.

An eminent experimental physicist, Dr. Raja Ramanna, who has been scientific adviser to the Defence Minister, has just been drafted back to his original post as head of the Bhabha Atomic Research Centre. One of his briefs is to devise a crash programme to evolve an alternative fuel.

Between them, Dr. Ramanna and Dr. Sethna—although they have reportedly had personality clashes in the past—are now seen as the only team to gear up India's nuclear programme to produce the 10,000 MW the country hopes for by the year 2000.





An "on-site" conference at Monidih Mine, Bihar, between a British mining engineer, Mr. Ray Horsfield (second from right) and his Indian counterparts. The first mechanised longwall face in India was opened at Monidih, using British equipment

Ambitious programme to raise production

COAL

P. C. MAHANTI

INDIA HAS a fairly ambitious Sixth Plan programme of development for the country's coal industry (1980-81 to 1984-85), setting an output target of 165m tonnes. The best that India has done so far is an output of 103.93m tonnes in 1979-80 and the 1980-81 target is 113m tonnes.

The Union Ministry of course has been claiming that the current year's target will be reached. Even so, mining an extra 47m tonnes in four years will be a stiff task indeed. But considering the national coal shortage which at one time became a serious constraint on industrial production and which apparently keeps growing with time, India has no choice but to raise coal production to maintain a reasonable growth rate in industry through creating more adequate supplies of power and steel.

Coal demand in the economy is expected to rise significantly faster in the 1980s than it did in last decade. Mr. R. N. Sharma, chairman of Coal India, expects it to be quite steep, compared with the 5 per cent per year rate at which it grew in the 1970s, especially since nationalisation in 1972-73. Coal production over the seven years since nationalisation has increased by 36.71m tonnes, i.e., at the rate of a little more than 5m tonnes on an average, and it more or less kept pace with demand barring the two years of 1975-76 and 1976-77 when a slowdown in the economy threw up surpluses for which India had to make frantic efforts to find export outlets in Europe and elsewhere.

Investment cut

With a revival of the economy, coal demand picked up again, but for one reason or another, the industry has not been able to raise production fast enough to satisfy a growing demand. The authorities, not realising that coal demand could rise as sharply as it goes down with the cyclical swings of the economy, cut down on investment, and this, according to experts, is a major reason for the difficulties in the way of increasing output.

However, as if to make up for the mistake, the authorities are increasing the pace of their investments made over the past several years. For example, 20 major projects sanctioned during 1979-80 (both for the Coal India and Singaneri collieries, the latter kept a separate company mainly for administrative reasons) have a production potential of nearly 38.59m tonnes (Coal India 34.82m tonnes: Singareni collieries 4.07m tonnes). Together, the investment involved is Rs 3.7bn (£197m), most of it for Coal India.

The Union Energy Ministry has said subsequently that 21 more projects with a production potential of 28m tonnes are being cleared, and altogether at least 60m tonnes more of coal should be yielded in four to five years' time.

In coking coal production, where output consistently has been failing to match rising demand from the steel plants, there is a plan to double production by the year 2000 for an investment of Rs 1.6m. India has been obliged to import coking coal for the past two years amounting to 1 and 1.4m tonnes, and the Steel Authority of India has been pressing for long-term arrangements so that steel production can be planned on a more assured basis.

Domestic output shows few signs of picking up, mainly because of infrastructural constraints such as a serious power crisis in the coal belt and bad industrial relations. But India cannot afford to go on importing coal on a large scale indefinitely, not only because of the cost, although that is a major factor, but also because of its vast coal resources (estimated reserves 90bn tonnes) which must be put to proper use through the application of advanced technology.

Since its nationalisation, the coal industry has invested about Rs 1bn and it is expected that during the current decade as well as the next, Rs 7bn-8bn have to be invested if output is to rise in line with expected demand, from 104m tonnes in 1977-78 to 160m in 1982-83, to 257m tonnes in 1987-88 and to 407m tonnes in the year 2,000.

However, raising coking coal output would be a complicated process, since most of the mines in the Jharia coalfield are rather small and are deep underground, and some of them are also gassy. So the development scheme involves a thoroughgoing reconstruction of these small mines into groups of a dozen or so large ones.

In a number of cases, underground fires have been raging for years, consuming, according to experts, thousands of tonnes of scarce metallurgical coal that the steel industry badly needs. Kopex of Poland is helping in the prepartion of a plan for the reorganisation of the Jharia coalfield.

With the need to expand rapidly the output of both coking and non-coking coal, it has become obvious that the existing rather obsolete machinery and equipment has to be modernised equally rapidly, and the most up-to-date and efficient kinds employed to match the requirements of modern mining that India needs today. It has also become obvious that international help on a big scale will be needed—both to obtain the necessary expertise on an adequate scale and to acquire all the plant and equipment as quickly as the situation demands.

Spectacular

In fact, the Union Energy Ministry has already initiated talks with Russia, Britain, France, Poland and West Germany for the spectacular development it has been having to aim at. The World Bank, too, is interested in colliery development, especially where it is linked to super thermal power stations.

For various reasons, Russia is already playing an important part in the development of the coal industry as in steel. Then comes Poland. However, because of the need to modernise the underground collieries which now contribute about 70 per cent of the total production through the longwall mining technique, India in recent years has been taking the help of Britain which has special expertise in this field.

The UK National Coal Board has identified mines where longwall equipment can be profitably installed.

Britain has given substantial grants (some £21m so far) for modernising India's coal mining technology.

COAL PRODUCTION (in m metric tonnes)	
1972-73	77.22
1973-74	78.17
1974-75	88.41
1975-76	99.68
1976-77	101.04
1977-78	100.97
1978-79	101.95
1979-80	103.93
1980-81 (6 months)	50.05

According to the present ideas of modernisation, the conventional board and pillar method which is being used in most of the underground mines will be rapidly mechanised—a kind of intermediate technology programme. But the introduction of longwall technology will also proceed side by side at a pace that will take its share from the present 5 per cent of underground production to 33 per cent by the end of this decade.

The share of the open-cast method in coal production is planned to go up to 48 per cent from the present 31 per cent by the end of this decade. In fact, most of the incremental production will come from open-cast mines. This is broadly the pattern of development and technological change that the coal industry is scheduled to go through during the current decade.

Apart from the projected development in steel and thermal fields which between them account for a major part of the coal demand, there is another powerful economic argument why India should go in for coal production and development in a really big way: the country's oil import bill. This bill, already estimated at Rs 5.05bn, is going to eat up most of the country's export earnings for a long time to come. Coal has to replace oil for as many uses as possible, and in as short a time as possible.

Intensive exploration expected to reduce massive imports

OIL

R. C. MURTHY

THE GOVERNMENT is expecting oil demand to double during the next 20 years despite restrictions on consumption of petroleum products. Consumption is to go up to 69m tonnes in 2000-2001 from the present annual 31m tonnes.

Short-term plans to meet the demand from domestic sources appear to be encouraging. Oil imports, which are placed at 16.4m tonnes in 1980-81 (April-March), are planned to be cut to 15.5m tonnes in 1981-82 and further by another 1m tonnes in 1982-83.

The confidence in reversing the rising trend in oil imports is based mainly on the success achieved so far in offshore oil exploration and plans for increasing production from proven oil reserves. Viewed in the context of open-door policy towards foreign oil companies, the confidence does not seem to be misplaced.

The most successful venture of the Oil and Natural Gas Commission (ONGC), the Government arm for offshore exploration and production, is Bombay High, 160 km off Bombay in the Arabian Sea. Reserves of Bombay High, where oil was struck first in February 1974, are estimated at 800m tonnes.

Oil was discovered in India for the first time in the eastern state of Assam in 1867. Sporadic attempts have been made since the 1950s to achieve self-sufficiency, first by inviting multinationals to explore for oil. Subsequently, the Government itself under the influence of the Oil Minister, Mr. K. D. Malaviya, entered the fray.

Refineries owned by foreign oil companies were nationalised and exploration contracts with them cancelled. But the policy foundered.

Oil India (a 50:50 Government venture with Burmah Oil) and ONGC have been producing oil in the eastern part of the country at an annual rate of about 5m tonnes. In 1980-81, Oil India was to produce 2.83m tonnes and ONGC 1.70m tonnes. But the flow has been suspended for more than a year following student-led agitation in Assam on the repatriation of "foreigners"—a term used for the influx of illegal immigrants from Bangladesh.

As a result, dependence on imports has increased and the foreign exchange outflow on this count alone is placed at Rs 10bn so far.

CONTINUED ON NEXT PAGE

Huge investment to realise hydrocarbon resources

PETROCHEMICALS

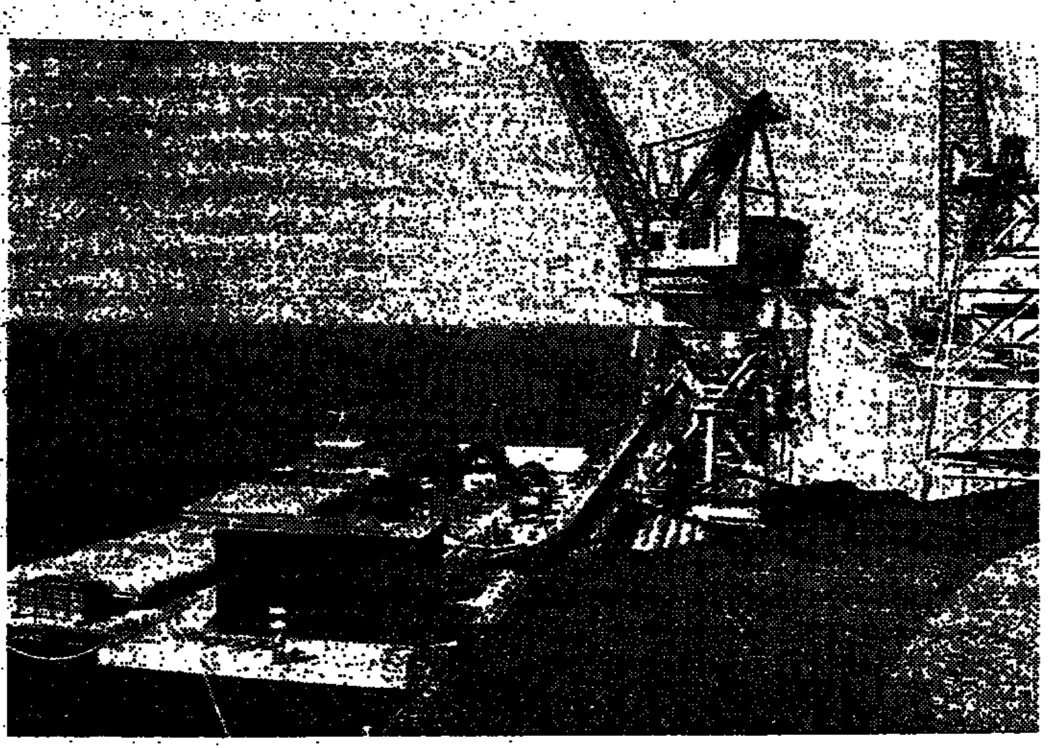
R. C. MURTHY

A PETRO-CHEMICAL revolution is in the making with the Government deciding to utilise fully and economically the country's hydrocarbon resources. International know-how licensors and chemical engineering companies, such as Pullman Kellog, and Du Pont of the U.S., Uhde Gmbh and BASF of West Germany, Shell and ICI of the UK, are engaged in a race to win the multi-billion rupee contracts for establishing fertiliser plants, naphtha and gas crackers and downstream plant.

At current prices, the total investment in this sector is more than Rs 100bn ($12.7bn)—Rs 80bn in fertilisers and Rs 20bn in other petro-chemicals.

A rough idea of the magnitude of the capacity created can be had by the expanding output of ethylene, a major feedstock of the petro-chemical industry. In the next five years, ethylene availability is expected to be quadrupled from the present 220,000 tonnes per year, established over the past 20 years.

The associated gas from offshore Bombay High oilfields and free natural gas from South Bassein fields, located in Arabian sea 100 km away from Bombay has opened up unprecedented opportunities for the gas-based petro-chemical industry. Besides, certain naphtha-based projects are to come up in eastern India.



The Bombay High oilfield, 160 km off Bombay in the Arabian Sea. Associated gas from the field will feed the petrochemical industry

Sites selected

The Government has decided to set up 10 fertiliser plants producing 1,350 tonnes per day of ammonia each, using methane from offshore natural and associated gas. Bassein field is to yield 20m cubic metres of gas per day and it has a high methane content (80.2 per cent).

The sites for four fertiliser plants — two each in the western states of Maharashtra and Gujerat — are already selected and contracts awarded. But the present Government has cancelled the decision of its predecessor to award the know-how consultancy contract for the four ammonia plants to C. F. Braun and chose Haldor Topsoe of Holland for Thal-Vaishet (Maharashtra) unit and Pullman Kellog for Hajira (Gujerat). The reversal led the World Bank to cancel in a virtually unprecedented decision a $250m loan to help finance part of the fertilizer project.

The sites for the remaining six plants probably will be in Madhya Pradesh (central India) and in the northern states of Uttar Pradesh and Punjab. So, too, the consultancy contracts. On current reckoning, the choice of technology will be between Topsoe and Kellog since the understanding is that both the companies are to transfer their know-how to the Government-owned Fertiliser (Planning and Development) India (FPDIL), which is expected to be the main consultant for future fertiliser plants.

The associated gas from Bombay High Crude is rich in C2 (13.5 per cent) and C3 (9.3 per cent) fractions and therefore is expected to yield larger petrochemicals like ethylene and propylene than from free gas, which has 8 per cent of C2 and 4.4 per cent of C3 fractions. The current plans envisage the flow of 4m cubic metres of associated gas at a peak production of 12m tonnes of crude at the end of 1982 from Bombay High.

Approximately 1m tonnes per year of C2/C3 stream will be available from about 20m cubic pylene than from free gas, These in turn can produce approximately 775,000 tonnes of ethylene and 65,000 tonnes of propylene per year. Also, about 2m tonnes of naphtha would be available from 12m tonnes of Bombay High crude. Catalytic reforming of this naphtha would yield about 900,000 tonnes of Benzene and 400,000 tonnes of xylenes.

India's first integrated petro-chemical project of 20,000 tonnes of ethylene per year was set up by Union Carbide in Bombay in 1966. The second naphtha cracker came up also in Bombay with Mafatlal-owned National Organic Chemical Industries Ltd. (NOCIL) setting up 60,000-tonne ethylene capacity plant. The third, also naphtha based, was set up in 1972 by the Government-owned Indian Petro-chemical Corporation Ltd. (IPCL) near Baroda with a capacity of 130,000 tonnes of ethylene.

An expert committee has recommended the setting up of two petro-chemical complexes on the west coast immediately to utilise the free and associated gas from Bombay High. Maharashtra is to have a gas cracker of 300,000 tonnes of ethylene and 40,000 tonnes of propylene per year. The project is to be located at Usar, a site adjoining to the proposed fertiliser plant at Thal-Vaishet.

A fractionation plant to separate methane, LPG, C2 and C3 from the associated gas is ready for commissioning at Uran, the landfall point chosen for bringing ashore Bombay High crude and gas. The product-mix of the Rs 8bn Maharashtra project is 160,000 tonnes annually of LDPE, 100,000 tonnes of PVC, 40,000 tonnes of styrene, 20,000 tonnes of polystyrene, 40,000 tonnes of 2-ethyl Hexonol and 80,000 tonnes of ethylene glycol.

The Government is yet to clear the project from the financial point of view and also to decide on the pattern of ownership of the gas cracker. The question is whether it should be owned by the Government or to be in "joint" sector (i.e., jointly owned by the Government and private sector with management vested in private hands).

Another gas cracker is to be established at Kavas in Gujerat using mainly the C2 and C3 fractions of natural gas, the methane content of which is used in fertiliser production. Although the proposal is to establish 300,000 tonne ethylene complex, the Central Government appears to be thinking in terms of 160,000 tonnes of ethylene and 17,000 tonnes per year of propylene.

Pipeline

A pipeline is to be laid from the offshore fields to carry the feedstock to Kavas and this is to be extended to the three northern States as and when the sites are chosen for the remaining six gas based fertiliser plants. The product pattern is being so designed to make the Gujerat plant complementary to the Maharashtra plant. According to Government thinking, it will produce 30,000 tonnes of HDPE, 30,000 tonnes of vynl acetate and 100,000 tonnes of PVC.

The progress of the Gujerat Project appears to be faster than the Maharashtra complex. A corporate entity, Gujerat Petrochemical Corporation (GPCL), has been formed and Engineers India (EIL), public sector engineering consultant which helped to execute IPCL project, is charged with the task of short-listing the bids for consultancy.

The 16 international consultancy companies bidding for the Gujerat gas cracker include Lumus, Kellog, Japan Gasoline, Technip, Mitsubishi Petro-chemicals and Union Carbide. Hoechst/Uhde, Sumitomo Chemicals, ICI are among those in the run for HDPE plant. Among those competing for the styrene monomer unit are Dow Chemicals, Monsanto, Mobil, Shell and BASF. The largest number of inquiries, 31, has been received for polystyrene plant consultancy.

International companies are also looking forward to bid for building plants to make aromatic chemicals such as benzene and xylenes of which Bombay High crude is rich. According to an EIL estimate, 2m tonnes of naphtha coming out of 12m tonnes of Bombay High crude per year would yield 900,000 tonnes of benzene and 400,000 tonnes of xylenes. Three aromatic complexes are to be set up in Bombay, at Mathura (near New Delhi) and Cochin in the southern State of Kerala. All three will be in the public sector.

Apart from the gas-based petrochemical industry, a proposal to set up 100,000 tonnes per year naphtha cracker in Communist-ruled West Bengal is under consideration by the Government.

A host of downstream units is to come up based on the three main crackers. A 30,000-tonne butyl rubber plant is to be set up at Koyali (Gujerat) adjacent to the existing oil refinery. A DMT plant is planned near Bombay in the private sector. Bombay Dyeing and Manufacturing Company has applied for licences for DMT plant and a Rs 500m polyester filament yarn project.

Reliance Textile Industries has secured permission to set up a PFY project near Bombay and Du Pont is the hot favourite for supplying technology. A large number of conversion units will have to come up to process the plastics and fibres produced from the three petro-chemical complexes.

Since the multiplier effect of petro-chemicals is high, generation of employment and a sharp rise in GNP in these States is likely. The spin-off is sizeable business for international petro-chemical companies.

Exploration should cut imports

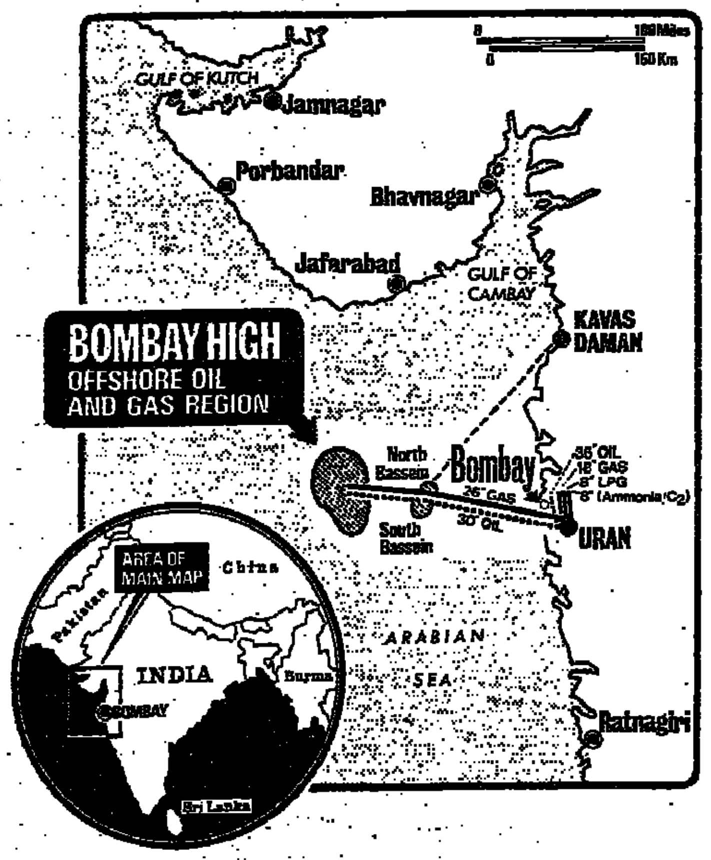
CONTINUED FROM PREVIOUS PAGE

To make up for the shortfall, India turned to Iran and Iraq, which have emerged as the major sources of crude supply in 1980. The disruption of imports caused by the Iran-Iraq war for the past four months has compounded India's difficulties.

The 10 per cent oil price rise in December 1980 and the high cost of spot purchases to make up for the shortfall in Iraq-Iran supplies has raised the crude bill to RS 55bn for 1980-1981. The Government is thus compelled to increase domestic production.

The change in policy is not restricted to exploration in potentially new areas which alone, according to official thinking at one stage, were to be allotted to international oil companies invited to join the oil hunt. Even Bombay High is to be thrown open to foreign oil majors, provided of course they present a convincing plan to take more oil out than 240,000 barrels a day planned by ONGC at the end of 1982. CFP of France has submitted a proposal to produce an additional 100,000 barrels a day from Bombay High and satellite structures within two years.

Left-wingers in the country mounted an offensive against these policy changes. Their hope was that during the recent visit of Mr. Brezhnev, the Soviet Union would offer help in the hunt for oil to wean India away from dependence on Western technology. But no such offer came, although some East European countries are bidding along with international oil majors for exploration concessions.



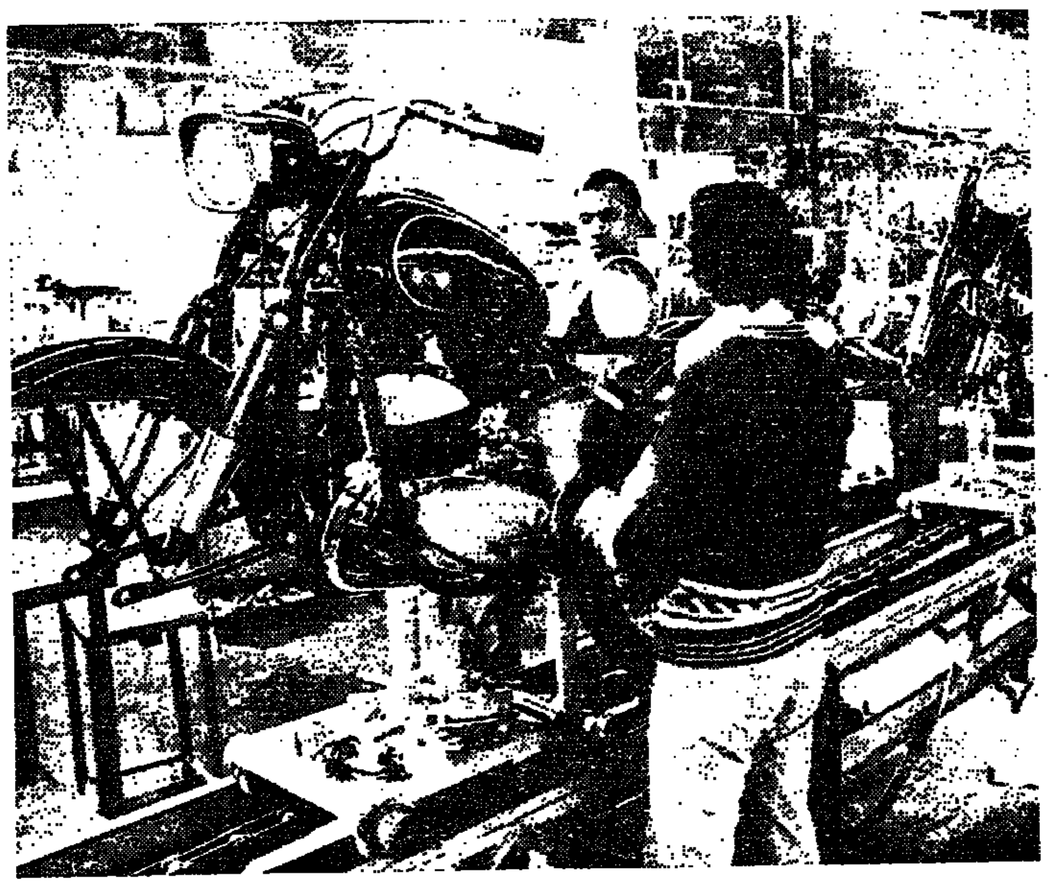
The response from oil companies to India's offer of 32 blocks covering 700,000 sq km onshore and offshore is overwhelming. Thirty-four out of 67 companies participating in bids for exploration rights are short-listed. They include British Petroleum and Burmah Oil of the UK, Agip of Italy, Esso, Chevron, Gulf, Texaco and Hunt Oil of the U.S., Deminex (West Germany) and CFP (France).

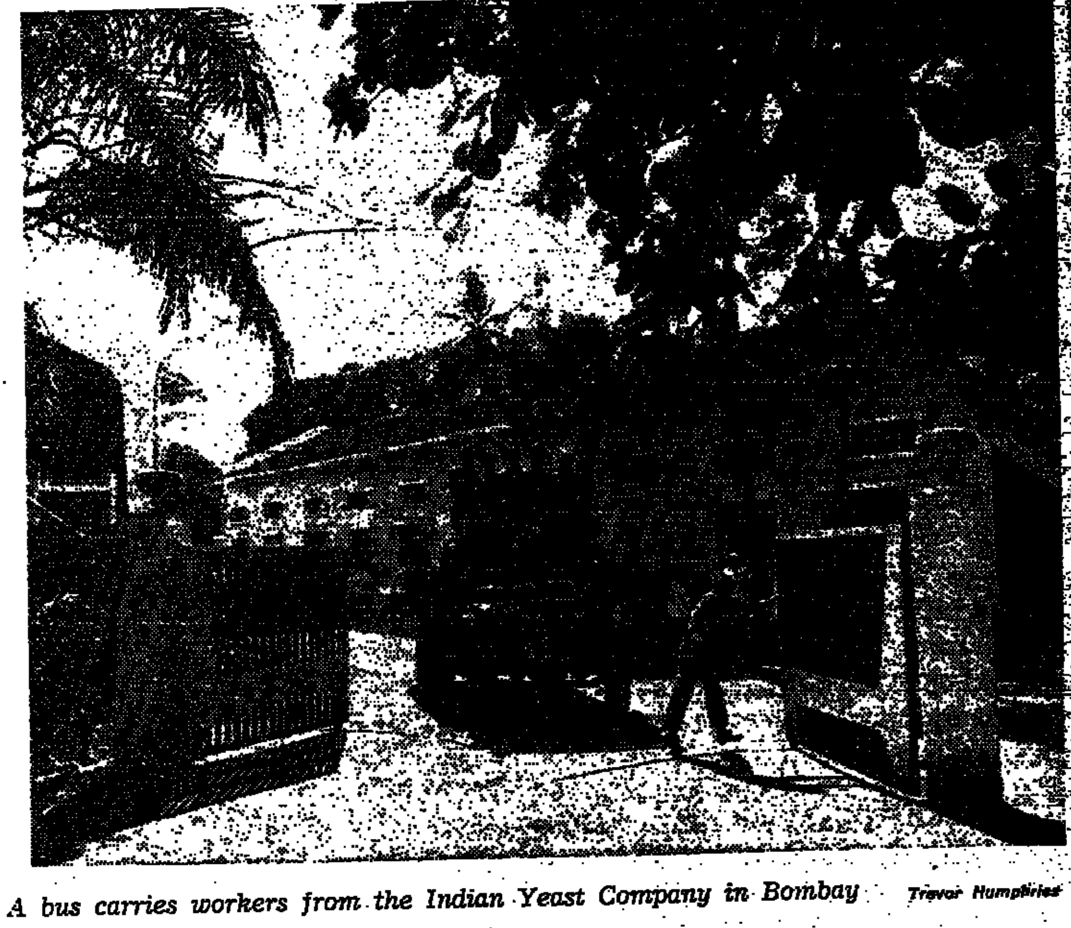
The Government plans to retain as much oil as possible for domestic use to reduce dependence on imports. Official teams went to Paris and Washington in December to give technical information on the blocks offered and policy clarifications to prospective bidders. The Government has drawn up these guidelines:

- All contracts will be awarded on a production-sharing basis.
- Those offering to sell the maximum share of oil to India will stand the best chance of getting exploration contracts.
- Contractors will be required to sell "cost oil" (quantity of oil required to recover the cost incurred by contractor in exploration and production) to the Government at a "fair market price."
- Preference will be given to entire share of "profit oil" (total oil produced minus the cost oil).

The Commission has formulated a plan to invest Rs 35bn over the next four years for intensified surveys, exploration and production.

Apart from Bombay High and adjacent South and North Bassein fields, ONGC is exploring for oil in Ratnagiri, Andaman and Godavari — all offshore. Two more drilling rigs, one from Japan and another from France, will soon be deployed in Bombay High to increase crude production from 140,000 b/d to 240,000 b/d by the end of 1982. This involves installation of 21 well platforms and two major process platforms. ONGC will have to take a decision in the next few months on the enhanced oil recovery schemes (such as water injection) to be introduced in Bombay High to keep up oil flow at 240,000 b/d from mid-1983.





Motorcycle production at the Escorts factory at Faridabad. Right: A bus carries workers from the Indian Yeast Company in Bombay Trevor Humphries

EMPLOYMENT

Lull in the war as workers 'wait and see'

UNIONS

MARK WEBSTER

THE INDIAN factory manager smiled philosophically: "Yes, you could say the level of violence in industrial relations has gone down recently. I have not had a threat against my life for some months."

The remark was not intended to be ironic. His predecessor as general manager of a textile factory at Faridabad, an industrial centre 20 kilometres from New Delhi, had been seriously injured by striking workers during an industrial dispute the previous year and two workers had been killed.

In the jungle of India's industrial relations almost anything goes. Throughout the Bengal-Bihar coal and steel belt, the Thana-Belapur industrial complex near Bombay, and at Faridabad, Mafia-style "goondas" or gangsters terrify both workers and management. Bosses hit back by calling in the police who have several times opened fire on workers holding "illegal demonstrations."

Things are worst in the sprawling private sector industrial areas where even the more progressive companies have been affected by the rivalry between different trade unions, the strength of the "goondas" and the lack of an effective industrial relations machinery. Only some of the white collar workers in the banking and insurance sector have one union to represent all their members, the rest are hopelessly divided among themselves.

Government officials point out that the labour scene has been much quieter since the Congress administration came to power in January last year. During the first eight months of 1980 only 7.8m mandays were lost compared with 32.4m in the same period the previous year. The 1979 total of more than 40m lost mandays was the highest since 1974, itself an exceptionally bad year.

But union leaders say the present lull is due partly to the "wait and see" attitude of the workers to the policies of a new Government and their recollection of the uncompromising way in which the Congress Government dealt with industrial action during the Emergency. The unions say tension is building throughout the workforce and the coming year is going to be much more difficult for the Government.

Yet 1980 has not seen any prolonged stoppages by the big unions and in November a successful agreement was reached with one of the most vital groups of workers—the 137,000 port and dock men. The men agreed to a four year deal covering the country's 10 major ports which, it is hoped, will take the heat out of a traditionally troubled sector.

"The way ahead is not going to be so smooth," said a senior anti-Government trade union leader. "Basically, the Government is not interested in formulating a proper, realistic policy. Instead, it is tightening up on repressive legislation such as the National Security Ordinance which it will use to break the unions if they try to oppose the Government. In the meantime, employers are taking advantage of the disastrous economic situation to take a tough line with workers."

The undisguised antagonism between the unions, management and Government has turned industrial relations into something more akin to guerrilla warfare. Although all sides agree something urgently needs doing, they are no nearer accord on what that should be. The new Government has met trade unions and management and tripartite talks were planned for the end of last year under the aegis of the National Labour Conference, a body which has been in mothballs for some years. No one seemed hopeful that the talks would resolve any of the outstanding issues.

"How can you begin a discussion when each of the groups represented is divided itself over what needs doing?" asked a writer on Indian labour problems. The Government has failed to come up with a clear policy on labour and the employers' umbrella organisation the Council of Indian Employers has been accused by its own members of financial weakness, indiscipline and inefficiency.

But the deepest divisions exist within the union movement itself. Something like 10 per cent of the country's total workforce of 180m are in the "modern" sector of the economy and of them only 5m to 8m are actually members of trade unions. Figures are vague and unreliable because of the size of the workforce involved and because without a proper check-off system for paying union dues, it is impossible to gauge how many workers really are committed union members.

> **"In Maharashtra and around Bombay in particular, the regularity with which workers are murdered in intra-union disputes, and the increasing frequency of assaults on managers is disquieting, to say the least."**
> *The Economic Times, December 1979*

The union movement is characterised througnout by its financial weakness, its heavy dependence on political parties and the bitterness of the inter-union and intra-union rivalry. Of the dozen or so trade union centres, only five are really significant—the Congress (I) affiliated Indian Trade Union Congress (INTUC), the Communist and Moscow oriented All India Trade Union Congress (AITUC), the Hind Mazdoor Sabha, the Bharatiya Mazdoor Sangh and the other Communist inspired body, the Centre of Indian Trade Union (CITU).

The centres show little inclination to bury their differences and within the same factory, unions with affiliations to the various trade union centres vie for influence. When a pay deal is concluded with one union, another can persuade the workers it can raise the offer and the loyalty of the workforce will shift. On the other hand, management is often reluctant to recognise unions affiliated to the Communist centres and prefers to deal with the more malleable INTUC union even where it does not command as much support.

The only laws in the industrial relations jungle are creaking with age. The three main pieces of legislation are the Trades Union Act 1926, the Industrial Employment (Standing Orders) Act 1946 and the Industrial Disputes Act 1947, none of which make it binding on either side to go to arbitration before taking industrial action. The voluntry arbitration and conciliation machinery which does exist is heavily criticised by the trade unions as cumbersome and slow.

The ill-fated Industrial Relations Bill introduced by the Janata Government in 1978 attempted to put some order into industrial relations but was howled down by all sides. The Congress administration has floated a few ideas on union recognition, secret balloting of trade unionists, compulsory acceptance of a recognised trade union by management and free collective bargaining. But they remain ideas.

In the meantime, the trade unions are determined that they will continue to employ their full armoury of industrial protest from Kit-Kat strikes (unofficial breaks of 15 to 20 minutes), gheraos (lock-ins) and go-slows to the sabotage of machinery and open violence. In that case, management will probably continue to reply with salvoes of lockouts, closures, wholesale sackings and, the unions say, victimisation of union leaders.

What worries some unions is that while they are engaged in outright war with management, the broader social problems of the country are being ignored. As one trade unionist pointed out, more than 50 per cent of the population live below the poverty line, unemployment and underemployment are at disturbingly high levels, and little is being done for three major groups in society—women, the landless peasants and the millions of working children.

MAN-DAYS LOST IN INDIA THROUGH INDUSTRIAL ACTION (m)

1970	20.6
1971	16.5
1972	20.5
1973	20.6
1974	40.3
1975	21.9
1976	12.8
1977	25.3
1978	21.5
1979	43.0
1980†	7.8

†First eight months only.
Source: Ministry of Labour.

Resilient growth in face of constraints

SMALL INDUSTRY

MARK WEBSTER

INDIA'S SMALL scale industry has proved to be one of the most resilient sectors of the economy during the past two decades, despite the growing problem of "sickness" that remains largely untackled.

But the past three years have seen its growth rate slump from 18 per cent in 1977-78 to around 4 per cent in 1979-80 as it was hit by erratic power supplies, shortages of raw materials and the inconsistency of Government policies.

The Janata administration made great play of helping the small sector with additional finance and limiting the growth of large scale industry, but conspicuously failed to keep its promises. Since Congress (I) came to power in January last year, it has changed the emphasis of the policy and is seeking greater integration of small industry with medium and large but with equally little noticeable progress.

The definition of small scale industry was revised last year to include all industrial undertakings which required an initial outlay on capital equipment of less than Rs 2m (£108,000). At the same time, the small sector's baby brother—the tiny sector—was also revised to include all enterprises which required investment on capital equipment of under Rs 200,000 (£10,800).

The rapid growth of small industries over the past 20 years has given them considerable significance within the Indian economy. There are estimated to be some 800,000 units around the country although many of them have not registered officially with the state governments concerned. In all, they employ nearly 7m people and produce goods worth Rs 209bn (£11bn) which consist of 5,000 lines ranging from soap and matches to televisions and car parts.

Small scale industries are also well represented on the export front, constituting 18 per cent of total exports in 1979 compared with 9.6 per cent in 1971. The concentration of small industries in the industrial sector means that they have a much larger slice (41 per cent) of the non-traditional exports and have done much to change India's economic profile and make it more industrially oriented. There are a number of other advantages for a developing country in encouraging small industry:

- It generates employment quickly, requiring only one fifth the investment in fixed assets to create a job as the large sector.
- Small industries can be more easily established in backward and rural areas.
- The entrepreneurial spirit is given free reign.

But there are also drawbacks as can be seen from the haphazard fashion in which the small industries have developed in India despite the creation of a whole panoply of federal and state bodies to enable them to develop in a more orderly fashion. Small industries are beset with a host of problems including inexperienced management, erratic supplies of power and raw materials, the concentration of industries in urban areas and in certain parts of the country (Punjab, Maharashtra and Gujarat), difficulties in obtaining credit and problems of quality control and marketing.

The Federation of Small Scale Industries which regroups some 500,000 enterprises, complains that Government lacks the political will to help it. The Federation wants better tax breaks but says the Government prefers to create more organisations which tend to interfere as much as help.

The development of small

CONTINUED ON NEXT PAGE

GROWTH PATTERNS OF SMALL SCALE INDUSTRIES

	1976-77	1977-78	1978-79	1979-1980*
Number of units (000's)	586	563	723	799
(a) Registered	262	289	323	386
(b) Unregistered	324	374	400	413
Production at 1979-80 prices (Rs bn)	152	172	189	209
Employment (m)	5.6	5.9	6.4	7.0
Exports (Rs bn)	7.6	8.4	9.4	11.0
Credit to small industry (Rs bn)	14.2	17.0	21.5	20.6

* Provisional.

Source: Development Commission Small Scale Industries, India.

Donkeys carry cow dung for delivery to customers in Babri Village, Northern Uttar Pradesh. The dung is widely used in the Indian countryside as fuel for cooking and heating

Below the poverty line and in the grip of vested interests

RURAL DEVELOPMENT

KEVIN RAFFERTY

INDIA HAS reached the atomic age and the space age. It is one of the top 12 industrial powers in the world, but it is also top of the world poverty league in terms of numbers — about 40 per cent of the wretchedly poor people in the world are Indians.

For all this, it is not easy to generalise about poverty and economic development in India today. The contrasts are in many ways more striking than the glib truths: the broad leafy roads and sprawling bungalows of New Delhi, yet the humps of bodies sleeping blanket to blanket on the pavement outside the capital's stock exchange, the titivated fenced verges in Calcutta, splashed with flowers, yet the masses driven from them to dirtier refuge, the business and banking skyscrapers of Bombay, yet the long low line by the railway tracks of rag-and-bone birds' nest homes occupied by even more patched-up people.

The penal rates of tax discourage effort, yet the portly polished businessmen live like kings of old. The industrial machine turns out all manner of modern products, when it is not halted for want of basic power, and the railway industry exports engines to Africa and Asia, but cannot keep its own trains to (in some cases) 12 of 24 hours of the timetable. The country with the fourth largest coal reserves in the world groans under the costs of higher oil bills while its coal stays firmly embedded in the ground.

The green fields of the Punjab and Haryana are contrasted with the thirsty barrenness of Bihar; the procession of first-class Indian graduates who run other countries' industries with the procession of good Indian graduates search for work in their own country; the blaring pop music of the Bombay hotels with the simple life of the villages, governed by the rise and fall of the sun and the movement of the seasons. The constant prattling of the ruling elites of "socialism" while they —politicians, leading businessmen and bureaucrats — organise a corrupt and very private limited company to cream off for themselves the benefits of India throws into relief the heroic survival of millions of ordinary Indians who manage to make something of lives founded on hardly anything.

Split atom

For all its industrialisation and modernisation, its successful splitting of the atom and conquest of space, India has failed to meet the basic needs of the masses of its own people. It has fallen to the bottom 15 countries in the world measured in per capita income terms, a long way below China and far below the fast growth states of east and south-east Asia. With savings rates the same as India's today—more than 20 per cent—Japan was growing at 9 per cent a year. India's trend growth rate has been about 3.6 per cent a year, or a bare 1.25 per cent in per capita terms.

Playing the numbers game can be mind numbing. By most estimates today between 45 and 48 per cent of the total population of India lives below the austerely defined poverty line of Rs 2.5 a head a day (Rs 2.5 would buy a taxi ride of one kilometre in a big city or half a cup of poor coffee in one of the good hotels). In round figures, about 300m people, or more than the total population of Western Europe, lives in poverty. The numbers are growing by more than 5m a year—more than the population of most metropolitan cities.

Isolating the factors retarding India's growth is difficult in such a complex and massive land. In general terms there has neither been the pull of opportunities created in the modern economy nor the push of demand from the traditional areas. The industrial growth rate has dropped from 6.6 to 6.3 to 4.2 per cent in the past three decades. The private sector, subjected to heavy controls, today employs barely half a million people more than 15 years ago. Many of the jobs in the public sector have proved to be sinecures which have helped to swell the losses of the public sector industries.

In the countryside, much of the land is under the sway of vested interest who have excellent connections with the ruling politicians for whom they are bankers. Social diversity also plays a large part. Dr. B. S. Minhas, who was a member of the planning commission in the early 1970s until he resigned, has compared the prosperous Punjab with Kerala. In Kerala he found that the powerful Christian, Muslim and Hindu religious groups are neatly balanced and that much time and effort has been spent in making sure that no one group is unduly privileged. In consequence, the power groups from each region have been able to see that their own interests are not challenged.

Kerala is a special case in that no other state has the same religious mix. But Kerala has the advantage, too, of high literacy rates. Other states have the same sort of internal tussles over caste, creed and even language. There is also a big gulf between town and countryside and the prevailing tradition is that clerks and bureaucrats in the district towns do not like to soil their feet by venturing too far to the villages.

The Punjab is the special limiting case. Pockets of the Punjab are as prosperous as Japan. The state has 175,000 tractors and even so has to import labour from neighbouring states to see that the harvest is brought in on time. Punjab grows 1 per cent of the world's grain and more than 10 per cent of India's, though its share of India's population is less than 3 per cent.

Thes development of the Punjab was aided by special factors. Thes state is a homoneous one, dominated by Sikhs. Interestingly enough, when the old Punjab was split in the late 1960s into Punjab and Haryana, leaving the former to the Sikhs and the latter to the Jats and other Hindu castes, it was a great spur to growth in Haryana.

Given the massive migrations at partition and the need to resettle a large population swiftly, the Punjab sorted out at a stroke many of the problems of land and landholdings which have bedevilled development in other Indian states. Land was consolidated and migrants were given land quickly, normally in holdings of less than 30 standard acres. Old vested interests had less of a chance to get a grip.

The Sikh religion also aided quick development. In many ways, Sikhism developed as a liberal protest against the hidebound and restrictive Hindu traditions. Sikhs have no caste and do not believe in taboos against travel. Punjabi traditions of literacy, and its geographical place at the crossroads of the subcontinent, also make the areas receptive to new ideas. The fact that many of the resettled farmers were migrants who had lost their all in the bloody move from West Punjab (Pakistan) acted as an additional incentive.

On top of this, the immediately post-independence Punjab governments took important practical steps: they linked every village to the market, they emphasised irrigation and making it work on the farms, and they established the Punjab Agricultural University at Ludhiana and insisted on its practical work, conducting research and development in conjunction with the actual farm and not just in experimental test beds. The farmers did not need much encouragement. Hearing of new miracle seeds numbers of them raided the research plots of the university to steal a few grains; one farmer built his own seed nursery from just 14 stolen grains of wheat. Thus was the green *revolution nurtured* and the Punjab turned from a food deficit state to the granary of India.

Barriers

India's most backward state, Bihar, exhibits almost exactly the opposite tendencies of those which have contributed to the success of the Punjab. It has strong zamindari (landlord) traditions and its caste and religious barriers are probably the strongest in all India. The literacy is lowest and the political leadership has been the weakest, concentrating mainly on preserving traditional interests rather than on promoting practical progress.

The past few years have seen a political awakening in large parts of India. Farmers in traditionally backward states have also shown their awareness, just as the Punjabi farmers have. But there are now immense problems stemming from this late development. The backlog is enormous. With so many millions below the poverty line it will take years and years to create the jobs, houses and basic amenities for them. There may not be much help from the rest of the world, especially as China is competing for loans from international agencies. In 1950 India was better developed compared with South Korea, Taiwan, Mexico and Brazil, but all these countries have shot ahead and will be tenaciously guarding their positions in a more protective world.

India's land is being squeezed even by a population whose growth rate is now reduced to less than 2 per cent. Without income generation and industrial opportunities there will be a continuing shortage of jobs for the peasants forced off the land. According to Professor Raj Krishna, former member of the Planning Commission and now at the Delhi School of Economics, 20 per cent of the rural population — which make up 70 per cent of India's population — is already landless, 70 per cent consists of small farmers holding less than two hectares, and only 10 per cent farm more than two hectares.

Further growth

CONTINUED FROM PREVIOUS PAGE

scale industries is primarily the responsibility of the state governments, but the Ministry of Industry set up the Small Industries Development Organisation in 1954 to act as the co-ordinator and planner on a nationwide basis. The organisation has been active in sponsoring more than 600 industrial estates around the country while other federal organisations have provided training, leasing and hire purchase facilities for equipment and, at state and national level, development and finance.

When the Janata Government came to power in 1977 it introduced two further measures to help the small sector. District Industries Centres were to be set up to provide all the services that small industries would need under one roof. More than 300 have been set up, but the new Government is unhappy with the way they are functioning and has demanded a review of their operation.

The Janata Government also increased the number of products which were reserved for small sector production from 180 to 500 and then to more than 800. The reservation policy has brought accusations of "feather-bedding" the small sector but although the Congress Government says it is constantly reviewing the policy, it plans no dramatic changes in the number of items on the reserved list.

Mrs. Gandhi's Government prefers to help the small sector by increasing the number of articles which Government ministries and other public bodies are obliged to buy from small sector production. Already, some 350 items are on the list and others may be added, officials say.

Other measures which the Government will be trying in favour of the small sector will be the development of ancillary units attached to large-scale industrial processers. The small-scale units would operate as satellites supplying the factory with certain parts which the parent factory would use in the final assembly of its products. The advantages for the factory would be lower investment costs, lower production costs provided the small units were efficient, and less danger of disruptive industrial action.

A craftsman at the Oswal Emporium in Agra working on a marble table top which will be inlaid with a pattern of semi-precious stones. The tables are mainly exported

The Commission for Small Industries is also looking at ways of encouraging more small industries to set up in the rural areas and in towns with populations of 5,000 to 10,000. For the tiny sector it wants to encourage service industries such as shoe and car repairs and the processing of local raw materials, especially agricultural produce, skins and fish.

But the Commission says that its main aim is to see the sector expand. Its motto has become "Small is beautiful — as long as it grows."

Tax burdens and rising costs plunge many estates into debt

TEA INDUSTRY

P. C. MAHANTI

Trevor Humphries

Tea packing at Lipton's blending factory in Calcutta

IF 1975 saw the beginning of the boom in Indian tea and 1977 its peak, 1980 witnessed its end. Barring its closing months, auction prices during the past year remained depressed throughout in expectation of a bumper crop. Meanwhile the export prospects were none too certain, and the high price of sugar due to shortages checked the growth rate in domestic consumption. Indeed, had the expected bumper crop of 600m kg materialised, the industry today would be saddled with a heavy surplus despite some increases in exports.

However, the weather came to the industry's rescue, and an early onset of winter in north India, which produces four-fifths of Indian tea, brought the harvest to a premature close. The troubles in Assam, too, were beginning to have an indirect effect by creating shortages. Eventually it turned out that the crop would be much lower than anticipated, 570m kg —about the same as in 1978.

The tea gardens have come under heavy pressure from low auction prices, sharp increases in the cost of their essential raw materials—coal, fertilisers, pesticides and so on—and a recent pay rise for workers. With such a squeeze on their profit margins many estates, especially those in the southern State of Kerala, are plunging into debt.

The only hope of survival for these estates is substantial fiscal relief that will reduce the cost burdens and leave a surplus that can be ploughed back. But this the Central Finance Minister has not been in a mood to concede so far. Not until the next Budget is presented in February will his attitude be known clearly.

Taxation, both direct and indirect, has been eating into the industry's vitality. Tea is charged agricultural income tax on 60 per cent of its income by the States, and the 40 per cent balance is subject to central corporate tax. These two taxes work out to 68.65 per cent, as against only 58.13 per cent for other industries such as cotton, textiles, jute, engineering and chemicals.

The tea industry's higher rate of taxation necessarily leaves it with much less to invest, especially in development schemes intended to improve quality.

Greater need

Improved quality rather than just a higher rate of productivity is what the industry needs most. With competition from China and the African producers increasing steadily, and no prospect of an agreement on quotas to be shared under an international tea agreement that UNCTAD is trying hard to bring about, the industry feels that even to hold on to its 28 per cent share of the world market it has to raise its quality offerings to foreign buyers. For this, it must invest in the development of the gardens and in more modern processing equipment.

Tax relief is necessary immediately for the Darjeeling gardens, where only quality tea is produced. Some of the world's best tea is grown there, giving the Darjeeling produce the name of the champagne of Indian tea. A firm of consultants which conducted a survey of the Darjeeling tea industry at the instigation of the Tea Board has found that most of the gardens are tottering on the brink of ruin due to over-aged bushes, low productivity and a high rate of taxation.

The Darjeeling tea industry here produces just 11m kg annually but manages to export most of it thanks to the great world demand for Darjeeling tea.

However, the study's authors claim that as much as 40m kilogrammes of tea are being sold in major consuming countries of the world under the Darjeeling label, a good deal of which obviously is not genuine, and they suggest that legal action might be considered to check this practice in the tea trade abroad.

The country could also earn more hard currency from Darjeeling tea exports. At present Russia buys most of the output, helped by an over-valued rouble in relation to the rupee, which places other foreign buyers at a disadvantage.

The study recommends suitable fiscal relief, a combination of both direct and indirect tax concessions, higher development allowance rebate and replantation subsidies to revive the Darjeeling gardens which clearly need massive investment, and which they can scarcely afford.

The Government has substantially increased the replanting subsidy—at a higher rate for this hilly area than for the plains—but clearly an enhanced subsidy for replanting will not be enough. Tea Board sources say, however, that the gardens have welcomed the increase and intend to avail themselves of the subsidy.

While the economic outlook for the industry at home remains uncertain, that for exports is no more certain either. India is disappointed that the tea producers' meeting at Salisbury went the same way as that at Bandung, and there was no agreement on the quota for individual producers, although a ceiling of 740m kg already had been agreed to.

New producers, especially Kenya, were unwilling to compromise on the quota they have been insisting they should have. So was China, which has already pushed up its exports to more than 100m kg. China naturally does not want its efforts to be limited by any export quota.

In fact, these relatively new entrants to the world tea market want India and Sri Lanka, the world's leading and better-established exporters, to make some sacrifices by accepting lower quotas than their status as the first and second largest tea producers and exporters deserve.

World market

India and Sri Lanka's share in the world tea market today is 45 per cent as against 66 per cent only 10 years ago. Even then it is 45 per cent of a larger market. It is difficult to see how this stalemate in the world tea talks will be broken, with attitudes hardening on both sides to yield no more ground.

The world's leading producers now have to rely mostly on the efforts of the Rotterdam-based International Tea Promotion Association, which is engaged in discovering new markets for tea, especially in Africa and Latin America which are thought to have considerable market potential. UNCTAD and GATT are expected to provide substantial funds for market promotion in new markets, and in the newly-tapped markets it is thought there will be sufficient scope for promotion.

Packet tea or value-added tea exports are also helping the campaign as the packets clearly show the country of origin which bulk tea does not. India has been steadily increasing packet tea exports to all its major markets, the U.S., Western Europe and the Middle East especially.

With the business environment becoming less promising at present, there is less talk about production of 1,400m kg by the year 2000 than there was a year ago, but the industry is happy that the present Government is more sympathetic to its problems as an export industry than the Janata Government used to be.

Mr. Pranab Mukherjee, the Commerce Minster, has already agreed that the land taken away from the tea gardens by the State Government under their land reform laws should be returned in all reasonable cases.

But without the industry expanding its acreage, increased output on the dramatic scale hoped for by the turn of the century cannot occur. Better agricultural practices or further increases in productivity, however high they may be, will not be enough by themselves.

Moves to stabilise prices have made little headway

TEA PRICES

JOHN EDWARDS

WHEN THE world tea market suffers, India as the biggest producer suffers most. And, at present, tea producers are suffering.

Prices of tea for producers remain very depressed, despite a continued rise in the cost of production, accelerated by the increased oil and energy prices. It is estimated that something like half the tea grown in the world is being produced at a loss and the situation continues to deteriorate as the economic recession in the industrialised world reduces consumer spending power.

A decline in Indian domestic consumption of tea, because of the sugar shortage, and increased competition from China and other countries expanding their tea exports, have meant that there is simply too much tea available. Efforts by the tea-exporting countries to get together and stabilise prices by controlling supplies through an international tea agreement have again made little headway, mainly owing to disputes among the producing countries themselves.

There were high hopes that these differences might be resolved at the recent international tea conference held in Salisbury, Zimbabwe, last November — normally it is easiest to conclude a commodity agreement of this kind when producers are under pressure—but the conference failed to achieve much. Once again negotiations broke down over the question of export quotas for individual producing countries.

Disputes over quotas have been the main bone of contention in the talks, going on for over a decade, which are seeking a viable international tea agreement. India and Sri Lanka, as the traditional leaders in the world tea market, naturally want to retain their share, especially as it has declined from over 60 per cent to 45 per cent in recent years.

India was the biggest single exporter of tea in 1979, with exports of 199,700 tonnes—24 per cent of total world exports of 831,000 tonnes. Indian exports during the past decade have ranged from a low 176,051 tonnes in 1978 to a peak of 237,000 tonnes in 1976. Sri Lanka exports during the same period have been equally stable, between 185,000 to 212,000 tonnes but world exports overall have increased from 651,000 tonnes in 1970 to a peak of 831,000 tonnes in 1979.

The major proportion of the extra exports has gone to rival countries, notably in East Africa (Kenya, Malawi, Tanzania and Zimbabwe) and mainland China. Indonesia and Argentina also expanded their exports significantly. Not surprisingly, none of these countries want to agree to quotas that would restrict their expansion programmes. It is a dilemma that so far no one has been able to solve.

Better balance

India could, in theory, expand its domestic consumption still further as a means of bringing world supply and demand closer into balance. But this would mean forgoing valuable export earnings unless production is increased—something the tea gardens cannot afford to do at present with the disincentive of uneconomic prices. In any event it seems to make little sense to increase production of tea at a time when a glut of surplus supplies is so undermining prices.

The alternative to export quotas as a means of lifting world prices would be the creation of a buffer stock to buy up surplus supplies. This is the method favoured by the United Nations Conference on Trade and Development (Unctad) under its integrated commodities programme aimed at concluding international agreements to stabilise prices between producing and consuming countries. The controversial "common fund" to provide finance for individual commodity agreements buffer stock is in the process of being set up and should be operational in a year or two.

Tea is one of the 10 "core" commodities under the integrated programme, so it would be eligible for support from the common fund should an international agreement be concluded. But there are considerable doubts as to whether a buffer stock mechanism is realistic for the tea market. Most experts in the trade will claim it is simply not workable because of the many varieties and blends involved.

The other method of boosting tea prices, favoured especially by consuming countries, is increasing consumption by improving quality, distribution and promotion of the product. The International Tea Promotion Association has been formed with this objective in mind.

The Association's intention is to encourage generic tea advertising campaigns, such as that already being successfully carried out by the Tea Council in the UK, and also look for opportunities to exploit potential or expanding markets. The Tea Council in London, which is formed of representatives from the exporting countries and the domestic tea trade, claims to have halted the decline in UK tea consumption as a result of the advertising and promotion campaigns that started at the end of 1977.

Demand for tea rose in 1979 and at least held steady in 1980 —a sharp contrast from the 20 per cent decline in the decade from 1967 to 1977. This is an important achievement for tea exporters, since Britain remains by far the world's biggest consumer of tea and even a small per capita decline has a marked effect on total sales.

The teabag "revolution" has proved a mixed blessing for producers. While its convenience encourages consumption of tea as a beverage, the teabag uses less loose tea per cup. Indian efforts to promote its own exports of packet tea and other products have not really got off the ground so far and the dependence of raw tea remains.

India, Sri Lanka and Indonesia are to meet shortly to plan a joint tea marketing strategy. One idea is to blend more of their own teas and lessen their dependence on overseas blenders. But there must be doubts about how successful these talks will be in solving the basic problems of surplus supply.

Main hopes for a rise in tea consumption seem to depend on developing new markets where per capita demand is low at present. Great efforts have been made to boost sales to the oil-rich Middle East countries, while Africa and Latin America are two other areas where there may be some potential for expanding tea consumption. But competition in the beverages market is intensive. Not only is coffee also being intensely promoted but tea faces competition from a variety of soft and alcoholic drinks.

Backlash

While the boom prices of 1975-77 did temporarily boost producer profits it did not help consumption at all. What is more producers, who were forced to pay out higher wages to workers and higher taxes, now find themselves with much increased costs and low returns. India in particular suffered a backlash from the Government's decision during the boom period to restrict exports and impose a heavy extra levy on imports.

As a result, its exports to Britain in 1978 actually fell below those from Kenya for the first time ever. Some recovery has been made since, but the past year has been made difficult by the unrest in Assam and constant strikes in Calcutta that disrupted shipping and caused the cancellation of auctions. In addition India is now facing fierce competition from China, whose exports of tea have soared in recent years.

It is not a happy note on which to celebrate the centenary of the Indian Tea Association. But during that 100 years the tea trade and producers have shown remarkable resilience and past history shows that depressed times in the market can quickly be transformed into a boom period.

TEA CROPS
(million metric tonnes)

1972-73	77.22
1973-74	78.17
1974-75	83.41
1975-76	99.68
1976-77	101.04
1977-78	100.97
1978-79	101.95
1979-80	103.98
1980-81 (6 MONTHS)	58.05

WEST GERMANY'S ENERGY PROBLEMS

The nuclear option that won't go away

THE WEST GERMAN Government will shortly announce a dismal set of economic forecasts for 1981, strengthening demands particularly from the political Left for new state measures to counter stagnation and rising unemployment—and the Bundesbank will be urged to cut key interest rates.

That much is sure. It is almost as certain that Government and central bank will resist the pressures, the former because it in any case has no ready funds to finance a short-term economic boost, the latter because its hands are tied by interest rates abroad which are generally much higher than those in the Federal Republic.

Much less certain is whether the country is ready for a new and tougher attack on the issue which lies at the heart of many of its economic problems — its dependence on imported oil. The sense of political urgency seems to be lacking and public debate on the matter is sporadic.

This is odd. After all, the sharply increased oil bill is a key factor in reducing West Germany's visible trade surplus and increasing its current account deficit. That deficit (much the biggest in the Western world) is a major reason for the fall of the Deutsche Mark—by nearly 12 per cent last year against the dollar in which oil is priced. The relative weakness of the currency serves to boost the imported element in inflation, which in turn makes the annual wage negotiations (which are just starting) more difficult.

West German trade unions deserve their reputation for good sense and moderation—but they object to any suggestion that they should accept wage increases which do not cover the expected rate of inflation and a little bit extra. And the unions are not sympathetic to the argument that they should moderate their claims because the oil bill not only boosts inflation but also means a transfer of real resources away from the Federal Republic to the oil producers.

Oil imports now represent over 4 per cent of West Germany's GNP and are a key factor in the country's rising current account deficit which has led to the weakness of the Deutsche Mark. Jonathan Carr, in Bonn, explains why the Germans do not appear to be tackling the problem energetically.

In 1978 the imported oil bill represented about 2.5 per cent of German GNP—last year it was well over 4 per cent. It would be a brave or foolish forecaster who said the trend would be reversed this year—with GNP expected, at best, to stagnate. In real terms, the impact of the latest OPEC price increase still working its way through, and the political situation in the Middle East remaining highly unstable.

One trade union argument is that the higher sums West Germany has to pay for oil also represent increased purchasing power for the OPEC states, boosting prospects for West German exporters. But there are question-marks both over the capacity of OPEC to absorb more imports and over the ability of the Germans to capture as much of the available market as they did after the first oil crisis of 1973-74.

So far, it is true, overall German exports have held up well—increasing in real terms faster than imports. But repeated reference by the Germans to this success "in real terms" neither helps depress the oil price nor does it prevent those in the currency markets from looking at the "nominal" current account deficit of close to DM 30bn and drawing their own pessimistic conclusions.

A key question being asked is whether the Germans have the resilience and drive to deal with the challenge facing them in the energy sector, with all its related economic and financial implications. And, because potential D-Mark holders are unsure of the answer, the German currency is weaker than it would otherwise be.

It would be quite wrong to suggest that this is the only reason for the relative weakness of the D-mark against, for example, sterling and the French franc. But it is plain that the energy factor is one of major political and psychological, not just economic, importance. Britain has its oil and gas. The French have an ambitious nuclear energy programme on which they are seen to be pushing ahead with courage. The same cannot be said of the Federal Republic.

Those who criticise West German energy policy are likely to be greeted with injured expressions and a stream of details about the measures taken over the past few years. It is noted that the Federal Republic was the first Western country to produce a co-ordinated energy programme—back in 1973 even before the oil crisis. This was updated in 1977 and is about to be updated again.

The Government has taken steps to encourage energy savings, to boost the use of coal (the only major domestic-energy resource) instead of oil in power stations and to encourage industry to produce fuel-saving vehicles. Last year 48 per cent of German primary energy consumption came from oil, compared with 55 per cent in 1973—although in the intervening years the country's economy has grown by 18 per cent in real terms and the number of vehicles on the road has risen by more than one-third.

That may all be true (though it is worth noting that German dependence on supplies of crude from the Middle East region actually increased last year from 41 to 44 per cent). But West Germany's energy efforts are being judged not simply by what has been done—but by the size of the problem which remains and the known strategy to deal with it. Attention focuses in particular on German nuclear power policy—and the spectacle is far from encouraging.

It would be unfair to blame only the Federal Government of Social Democrats (SPD) and the liberal Free Democrats for the failure to push ahead faster in the nuclear field. Although the opposition Christian Democrats (CDU) in Bonn constantly criticise the Government on this account, they often show marked reluctance to help at the level of the Laender — the provincial states in a majority of which the CDU holds power. This applies particularly to the problem of nuclear waste disposal — which most politicians want to see solved, but not, it seems, in their own immediate area. West Germany's Federal system has certainly been one factor in the delay in pushing ahead with nuclear power.

Apart from that, the country has established an extraordinarily complex licensing system under its atomic energy law. So many agencies are involved at state and Federal level, so many conflicting administrative decisions are possible, so much latitude is allowed for appeal to the courts, that the wonder is not that there are so few nuclear power stations but that some at least have gone into operation. In fact, 14 nuclear plants are on stream, providing 3.6 per cent of the country's primary energy needs, compared with a nuclear share of 1 per cent in 1973. At present, it seems that nine nuclear plants are waiting for a construction permit—and some of those have been doing so for more than five years.

But it is hard to gain an overall view — as the Government's Council of Economic Advisers itself noted in a little-cited passage of its annual report in November. The council pointed out that power plant applications were often made to several different bodies simultaneously in the hope of gaining approval somewhere—anywhere — while other applications were withdrawn because of uncertainty about the criteria being used in the approval process.

What is certain is that potential investment worth billions of D-Marks (again the figures differ according to the body with which one discusses the problem) is being blocked and

Atomic power could play a much bigger role

that the West German nuclear industry is losing its competitive edge internationally, not least to the French. Yet the nuclear field is just the kind of high technology sector where the Germans must hope for future export success and an improvement in their payments position.

That said, the main responsibility for the lack of progress—and the climate in which nuclear energy is discussed throughout the country — must rest with the Bonn coalition. Both parties have highly influential anti-nuclear elements that have never managed to bring the domestic development of atomic power wholly to a halt. But they have come close. The position of the SPD, the senior partner in the coalition, was neatly summed up recently by a party atomics expert—"to maintain the option of nuclear energy and to open up the choice of being able to give up nuclear energy."

Even Chancellor Helmut Schmidt, who made a strong and successful appeal to the SPD congress in December, 1979, not to close the door on nuclear power, appears to have weakened his stand somewhat, although his aides insist he remains firm on the issue.

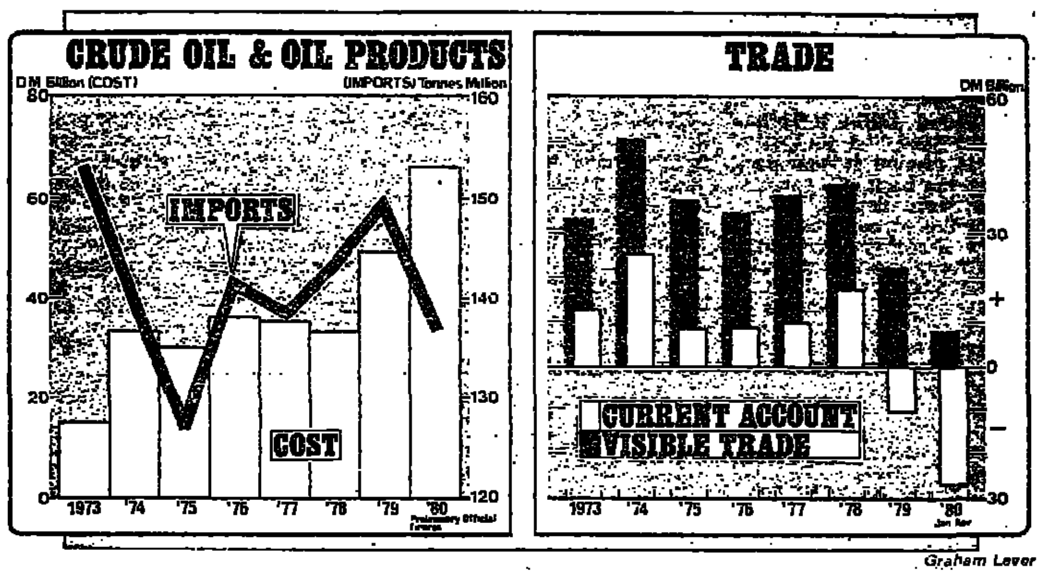
His public references to it in the Government declaration of November for example ("one cannot simply force nuclear energy down people's throats") leave room for doubt about his real position.

It goes almost without saying that atomic power could not be a cure-all for West Germany's economic problems and energy import vulnerability. The country would continue to be import-dependent on uranium (although, unlike most of the oil, supplies come mainly from countries with similar democratic traditions and strategic interests to the Federal Republic). Even firm measures to speed up power station construction and unblock investment would not make much difference to economic growth for years. Atomic power is thus not the remedy for the current economic downturn that some have implied.

Nevertheless, it is clear that atomic power as a supplement to domestic coal and in combination with it (for example, through development of gasification using high temperature reactors) could play a much bigger role than at present. It is hard to escape the view that, because of domestic political pressures, the Government is more inclined to tolerate dependence on imports of oil and, of natural gas (not least from the Soviet Union) than to tackle the nuclear problem head on.

For the SPD in particular this brings clear conflicts of interest which it will have to sort out sooner or later. For example, many in the party oppose on moral, ideological and historical grounds a major arms export deal which could emerge before long between Bonn and Saudi Arabia. On the other hand, it is plain that Western readiness to supply OPEC with arms is one factor helping to safeguard oil supplies in the longer term.

The French have long since decided both to supply arms to the region and firmly to reduce their dependence on oil imports, making themselves less susceptible to political pressures from the suppliers. The West Germans strongly give the impression that they have not yet really made up their minds on either score.



Graham Lever

Letters to the Editor

Funding small firms

From the Controller, Business Advisory Service, Lloyds Bank

Sir,—The spokesman for the Association of Independent Businesses (January 14) calls for a radical review of institutional arrangements with regard to the financing of small independent business. But at a time when corporate mortality is being matched or exceeded by the birth rate, are the criticisms levelled valid?

Mr. Bayliss' sweeping charge that services to small firms, as a group, have suffered does not stand up to examination. One has only to look at the terms of newly introduced and specially tailored packages to realise that the banks' attitude to risk assessment has undergone a significant shift. The fact is that lending propositions are viewed increasingly on the commercial strength of the proposition itself rather than the underlying asset backing.

Providers of capital, be they banks, building societies, other financial institutions or the long suffering taxpayer, will always be looking to minimise the risks associated with any investment—but the thresholds have moved. And with competition between institutions a reality, entrepreneurs need not take a first refusal as being the end of the story.

Experience in assisting businesses at crucial stages of their development highlights areas of weakness within the business community itself which perhaps have more relevance than the absence of government-backed loan guarantee schemes. Typically one finds poor or non-existent business plans, lack of appreciation of what is happening in the market place, inadequate management of existing resources, an absence of balance in professional skills at management level, and disregard of financial data within companies. Similarly, experience shows that simply throwing money at businessmen, whether it be equity, short, medium or long term funds, guaranteed or not, is no panacea.

Where then does the answer lie if we are to see a thriving and vigorous small firms' sector? As ever there are strengths and weaknesses on both sides of the fence. The banks have made, and are making, great strides in the professional manner in which risks are assessed and accepted. Equally a more professional approach is called for from existing and potential entrepreneurs in terms of planning and control of their operations—in short, good management. No amount of finance will provide adequate returns without this vital ingredient.

J. M. Blackburn.
Lloyds Bank, 11-15 Monument Street, E.C.3.

Janeway on Chrysler

From the President, Janeway Publishing and Research Corporation

Sir,—The London Financial Times flawed its consistent record for journalistic professionalism with the publication (January 10) of David Lascelles' exercise in armchair gossip on "Gloomy gurus." Specifically, he reports that I "dented" my reputation for sagacity by bulling Chrysler and GPU.

Forbes Magazine is the only published source of the two comments Mr. Lascelles cites—but Janeway letter is not, nor is any statement of mine. At the time, Forbes published the two mis-statements we advertised the corrections widely in the U.S. Press.

Here are extracts from the record of my position on Chrysler and GPU. "Chrysler is the most explosive breakaway stock on the board . . . a once in a lifetime special situation. It stands out as the acid test of the overall trend—not just of the stock market or, certainly, not of the auto business, but of America's overall national stance in the world. . . The Chrysler problem won't be solved until the U.S. gets a Government . . . able to . . . (start) . . . a bidding contest between the Japanese and the Germans for the privilege of assuming foreign responsibility for bailing Chrysler out. . ." I never suggested that Chrysler might take off as a self-starter in a political vacuum. In fact, my position since the start of the Chrysler crisis has been, and remains, if you're not willing to own Chrysler, you would be better off not owning any productive U.S. stock.

So far as my alleged Doomsday credo is concerned, along with my consistent tie-in of Chrysler's fortunes to Washington policies, I have advocated a solution—alas, too simple to have been acceptable to Mr. Carter. It calls for a Mitsubishi control bid to put Chrysler's still formidable residual assets under an independent management with financial clout. There's no doubt that a Mitsubishi tender would transform Chrysler into an explosive bear market breakaway stock. When I canvassed this solution with Ambassador Mansfield in Tokyo last March, he expressed frustration because the Carter Administration had not explored this viable alternative to keep Chrysler off the relief rolls.

My position on GPU precisely parallels my position on Chrysler. I branded the "meltdown" scare the phoney it proved to be, scarcely the stance of a pessimist committed, as per Lascelles' hyperbole, to "The Apocalypse." Optimism about the fundamentals of an industry's position does not necessarily go with bullishness for its securities. As I explained at the time, "By the time the Three Mile Island accident occurred in 1979, two years had passed since my widely publicised and uncompromising recommendation to sell all utility stocks. I have not modified that judgment and have no present plan to do so."

Newsletter publishers compete against other media in the same marketplace and the premium they charge over them for subscriptions puts their performance to the acid test.

Eliot Janeway.
15, East 80th Street, New York 10021, U.S.

Aerospace record

From the Chairman, British Aerospace

Sir,—I refer to the article by John Elliott (January 14) in which in commenting about the responsibilities of Mr. Norman Tebbit it is stated, I quote, "In addition he will be responsible for other expensive State-aided industries such as British Steel, British Shipbuilders, British Aerospace and the National Enterprise Board." . .

It seems very strange to me that a financial journal of the status of the Financial Times should define an organisation which, since its formation, has consistently increased its turnover, consistently increased its profits, and consistently increased its dividends on an increase capital base as "expensive" to the nation.

(Sir) Austin Pearce.
Brooklands Road, Weybridge, Surrey.

One voice for Lloyd's

From Mr. J. Burrows

Sir,—I am one of those 57 members who voted against Lloyd's Bill, when I realised, at the Albert Hall, the harmful division that would be caused by the creation of classes of external and working names.

Your correspondents of January 15 refer to this aspect by expressing the hope that the six council members elected by external names will act in the interests of Lloyd's as a whole, and not to any particular part of the membership, and that it would be diabolical if anybody, purporting to represent the external members, should act to the detriment of those they say they represent by delaying this Bill.

But already from the meeting are arising two associations, one to represent the 4,000 members who work at Lloyd's and the other to represent the interests of the 15,000 or so external members.

The Bill, as it stands, is unacceptable to myself because I can find no valid reason for division of underwriting members into working and external names.

The new Lloyd's council could surely be elected freely by members from the membership as a whole, as with any other society. We will all then be supporting a Lloyd's which speaks with one voice and we will continue to be represented by our underwriting agent only, whom we are free to change if we so desire.

J. D. Burrows.
Copyhold, Bury, Pulborough, West Sussex.

Full and frank disclosure

From Councillor D. Bick

Sir,—The current nationwide argument about rates and rate support grants raises a well-worn, but important question on the powers of, and restraints on, the bureaucracy and political leadership in providing important information to both council members and the general public. Although some senior officers of any local authority have to observe certain legal obligations, any information which might be prejudicial to the council's interests ought to be made available to members.

Potentially harmful speculation is bound to arise, where full and frank information on any situation which directly or indirectly affects the crucial financial interests of a local authority, is not revealed. Moreover, members of local authorities throughout the country are certain to be concerned that where information of this nature is not made available to them, their ability to make sound decisions after informed debate is sure to be impaired, particularly on matters of great urgency; and they may feel that the political decisions are being made long before the established accepted and democratic decision-making stages are reached.

Additionally, the reluctance of borough authorities to be more precise on situations is itself likely to cause alarm in the City from where many boroughs derive a large proportion of their borrowings. Perhaps financial institutions of all kinds which lend to local government bodies might take a more forceful role in demanding full and frank information on the financial affairs of local authorities?

David Bick (Councillor).
Members' Room, Town Hall, Brixton Hill, SW2.

A miner's life in Russia

From Mr. S. Snegov.

Sir,—It hardly seems likely that in a country where industrial output rose by 4 per cent last year (as against nil growth or decline in some other countries) there can exist the conditions leading to worker unrest "in extreme form," as your Moscow correspondent claims of the Soviet Union (January 9, "Where some miners are more equal than others"). The two things do not go hand in hand.

He makes other inaccurate statements, claiming, for exemple, that Donetsk is like a company town in the U.S.—only worse,—"because it is backed by the full power of the state." He contemptuously dismisses the power of the trades unions.

In my country the trades unions have extensive powers, including the power to secure dismissal of managers who abuse their authority in one way or another, and also to prevent unjust dismissals of workers. If Mr. Satter troubles to read the Soviet newspapers he will come across cases in which these powers are used. He will also see reports of Soviet procurators (prosecutors), intervening in cases where a particular trade union committee fails to take up a worker's rights to protection from unjust dismissal. Trades unions also have wide rights in the management field.

Apart from the rights they exercise through their elected trade union representatives, Donetsk miners have other individual rights. Some of these, of a fundamental character, are not enjoyed by miners in many other countries. There is, for example, their right to employment. If a worker's job comes to an end he is guaranteed another comparable job or suitable training during which he is paid his former wages. A miner working underground now enjoys a 30-hour week—on the same pay as for his former longer week.

Sergei Snegov.
4, Zubovsky Boulevard, Moscow, USSR.

London-Paris air fares

From Professor R. Portes

Sir,—Your Aerospace Correspondent's story (January 12) that British Airways and Air France "plan to cut European fares up to 40 per cent" will not mislead those familiar with the operation of the "new low-fare, two-class concept" on the London-Paris route. The "concept" has not been a "great success" for passengers, who would be much better served by Sir Freddie Laker's proposals for serious competition.

The £47 London-Paris return is available on only three or four flights (depending on the day) each way daily. The only one leaving London before 14.30 in the afternoon is the 06.40. This is of course too early to take the Underground to Heathrow, so one must spend in extra surface travel cost much of what one saves on the fare. Outward and return reservations, full payment and ticket issue must be made at the same time, and no changes in reservations are permitted. One must stay over at least two nights. Children (except infants) pay the full £47 fare.

Nor is the £47 fare a great bargain, even if one can manage to plan one's trip so as to use it. Before the new system was introduced in April 1980, the old Apex Visit fare (subject to fewer restrictions) was £57, and the standard economy class return was £94 (tourist class is now £87); there was also a Superpex fare under restrictive conditions at £43. So in fact "budget" fares have *risen*. Moreover, from my experience, both airlines' performance in keeping to their timetables on this route is poor, especially for the last flights of the day, which are those eligible for the "cheap" fare. Anyone familiar with the inexpensive, reliable shuttle services Boston-New York and New York-Washington (hourly, at about half the price of the "cheap" London-Paris fare, over a similar distance) will find the contrast painful.

The "concept" which in fact underlies this new fare structure is simply the state airlines' strategy to frustrate efforts to introduce competition. Rather than giving economics a bad name across the board, a government truly dedicated to market economy principles would at least seek to secure for us the benefits of competition where it will work. It could do so by fully supporting Sir Freddie Laker and forces in the European Commission and Parliament in putting the case for competition, pushing deregulation at every opportunity, and thereby increasing the pressure on other governments and state airlines.

(Professor) Richard Portes.
Department of Economics, Birkbeck College, 7-15 Gresse Street, W.1.

No free lunch

From Mr. R. Musgrave

Sir,—Mr. Drew (January 10) claims that a rise in incomes at the expense of house subsidies would virtually disappear in taxation. He cannot add up; £x reduction in house subsidies would result in an £x rise in incomes after tax, not before, assuming a constant public sector borrowing requirement.

Mr. Drew's defective mathematics are further evidenced by his amazing claim that "the average man cannot afford the average house." If this were true, there is no way, under any economic system, the average house could have got built! Government's funds all ultimately come from Mr. Average, so Government just cannot raise Mr. Average's real income. There is no free lunch.

R. S. Musgrave.
24, Garden Avenue, Framwellgate Moor, Durham.

Today's Events

GENERAL

UK: Mrs. Margaret Thatcher gives opening address at Women's Royal Voluntary Service conference on "Facing the Challenge," Bloomsbury Centre, London.

National Union of Railwaymen's special delegate meeting to discuss Labour Party, London.

Countryside Commission publishes new policy for areas of outstanding natural beauty.

British Steel Corporation and steel unions discuss survival plan, London.

Ford Halewood workers vote on company's pay offer, Liverpool.

Caravan, Camping and Leisure Exhibition, Bingley Hall, Birmingham (until January 25).

British Airways ground staff at Manchester Airport discuss call for unofficial one-day stoppage.

OFFICIAL STATISTICS

Industrial and commercial companies appropriation account, net acquisition of financial assets and net borrowing requirement (third quarter). Department of Trade issues December provisional figures for retail sales.

PARLIAMENTARY BUSINESS

House of Commons: Criminal Attempts, second reading. Motions on Local Authority Grants (Termination) (Scotland) Order. Highlands and Islands Shipping Services. Greater Manchester Bill.

House of Lords: Felixstowe Dock and Railways Bill, second reading. International Organisations Bill, third reading. Parliamentary Commissioner (Consular Complaints) Bill, committee. Merchant Shipping Bill, committee. Deep Sea Mining (Temporary Provisions) Bill, second reading. Energy Conservation Bill, committee. Control of Pollution (Special Waste) Regulations.

COMPANY MEETINGS

See Financial Diary on page 14.

UK COMPANY NEWS

Sonic placing at 80p: forecasts profits jump

Sonic Sound Audio, a Tottenham Court Road hi-fi equipment retailer, is coming to the stock market on the back of a forecast of more than double pre-tax profits for the current year.

Brokers Earnshaw Haes have arranged for a placing of 2.25m ordinary 10p shares in Sonic at 80p a share. The placing is of 37.5 per cent of the capital and is raising £1.3m for the Astor family and £0.5m (£300,000 after costs) of new money for the company.

Following the placing, Mr. Lionel Astor, chairman and joint managing director, and his brother Mr. Sidney Astor, joint managing director, will each control 31.25 per cent of the capital through family trusts.

Sonic is forecasting profits of not less than £800,000 for the current year to October 31, 1981 indicating a fully taxed prospective p/e ratio of 12.5 or 7.53 on the anticipated tax charge of just over 20 per cent. The directors expect to pay dividends of 4.48p per share on this base giving a yield of 8 per cent.

Lionel Astor has been involved in hi-fi retailing virtually all his working life. He started in the business with J. F. Stone and for some years was closely associated with Mr. Bennie Linden's Lindair company.

Sonic was started in November 1976 trading from leasehold premises in Tottenham Court Road—the UK's centre for hi-fi enthusiasts.

The company expanded to three operating units in Tottenham Court Road until just before Christmas when it opened its new prestige 5,509 sq ft store in the EMI centre across the road.

This has virtually doubled Sonic's sales area and is the main feature behind the sharp increase in profits forecast for the current year. Two more small stores are due to open in Tottenham Court Road before March.

Sonic retails a wide range of hi-fi radio, electronic home and in-car entertainment equipment and licenses space in its shops to retailers selling allied electronic equipment such as hi-fi accessories, video equipment, calculators, photographic equipment and telecommunications and CB radio equipment.

Income from the licensees is substantial and based on a flat payment plus a percentage of sales.

The company's short profits record—it needed special permission from the Stock Exchange because it could not produce the usual five year record—shows a rise in profits before exceptional items from £54,309 in 1976-77 to £392,777 for 1979-80. Licence income (gross) over the same period has risen from £62,218 to £227,868. Sales are up from £623,467 to £2,601,136.

Last year's profit was struck before an exceptional item of £88,691 following a settlement with a former director—Sam Gilby—whereby his consultancy contract was terminated and a new one entered into for five years.

The company's profits forecast of not less than £800,000 includes £297,500 minimum from licensing income. The directors say that the group's retailing activities continue to expand despite the economic climate.

Looking to the future Mr. Lionel Astor sees further growth from the increasing development of electronic gadgetry. The company expects to continue its development in Tottenham Court Road and into other locations. The £0.5m raised from the placing will give the group more muscle as it explores opportunities for acquiring allied businesses.

Dealings in the shares are due to start on Friday.

● comment

Earnshaw Haes get full marks for timing. Sonic makes its market debut with a forecast of more than doubled profits. It could be a long time before it recreates that sort of growth. The profits jump hinges on the new store opened just before Christmas which virtually doubles selling space. Price at 80p the rating—yield 8 per cent and p/e of 7½ on an anticipated tax charge—looks reasonable enough against Dixons, for example. But there is slim asset backing for a capitalisation of £4.8m at the placing price. It is clear that there is already plenty of investor interest building up and assuming the market does not fall away between now and Friday dealings could kick off over 90p. The only question mark—and it has little bearing on Friday's price—is over Sonic's long term development. The Astor's may not yet have squeezed the full potential out of Tottenham Court Road but at some stage the directors may be faced with the decision of where to go next. Diversification or a wider geographical spread could be a stumbling block to growth for the management has not proved itself beyond Tottenham Court Road.

Phoenix Mining back in loss

Phoenix Mining and Finance fell back into loss in the second half of the year to September 30, 1980. After reporting a profit of £535 at the interim stage it has turned in a full-year pre-tax deficit of £6,362, against £16,164 for the corresponding period.

Loss per 25p share totals 0.4p (0.01p earnings) and the dividend payment is again being passed. The last dividend payout was 0.825p net in 1978.

An extraordinary item of £127,989 includes the write-off of the remaining goodwill relating to the Worldwide Group. Despite the improvement in results of Worldwide, the board has considered it prudent to write off goodwill in the light of the recession and its impact on the trading results in the last few months.

The directors are reviewing future trading activities of Worldwide in view of its continuing lack of profitability.

They report that since the year-end, the acquisition of certain properties from Burrows (Builders) and the issue in consideration of 5m ordinary shares in the company has taken place.

Outline planning permission has since been obtained for development of the freehold land acquired at that time.

Agreement in principle has been reached for Phoenix to acquire 50 per cent of a private company with property interests mainly in the South of England.

If negotiations are successful, a circular giving full details of the proposed transaction will be sent to holders as soon as is practicable.

Williams Lea profits halved

HIT BY a dispute during national wage negotiations and the decline in the publishing industry which sharply reduced the market for subsidiary Photoprint Plates, taxable profits of Williams Lea Group more than halved from £912,000 to £450,000 for the year ended September 28, 1980.

Sales of this unquoted concern, consisting of eight specialist printing companies, improved by 12 per cent from £11.14m to £12.49m.

Unless there is a further deterioration in the economy, the directors expect to achieve improved results in the current year.

Earnings per 5p share are shown to be well down at 37p against 153p, after tax of £240,000 (£49,000), but the dividend is maintained at 17p per share.

Mr. David Donne, chairman, says, however, that there were some notable achievements during the year. Multi-sets, which provides an expanding range of products and services to the City in business forms and computer supplies, achieved record sales and profits, he states.

He adds that Williams Lea and Co., following three years of research and development, has installed a computer typesetting system specially designed to meet City financial printing requirements.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Cray Electronics, Estates Property Investment, G. T. Japan Investment Trust, Howard Shuttering, Peerless, Restmor, David S. Smith.

Finals:—Alexanders Discount, Great Northern Investment Trust, Meggitt.

FUTURE DATES

Interims:—	
AGB Research	Jan. 21
Associated Dairies	Jan. 28
Group Investors	Jan. 20
Kakuzi	Jan. 26
Longton Industrial	Jan. 30
Marler Estates	Jan. 21
J. Saville Gordon	Jan. 22
Stainburg	Feb. 3
Stoddard	Feb. 6
Finals:—	
Albion	Jan. 21
Camford Engineering	Jan. 21
Kuala Lumpur Kepong	Jan. 20
Leda Investment Trust	Jan. 20
United States and General Trust	Jan. 22

Bellway calls off venture

THE AUSTRALIAN subsidiary of Newcastle-upon-Tyne housebuilder Bellway has withdrawn from the joint venture with the Australian Land Commission.

Mr. Kenneth Bell, group chairman, revealed this at the AGM.

This venture concerned the development of the last substantial tranche of the group's land stock in New South Wales.

This reappraisal of the group's plans had meant that an extraordinary profit of £103,000 from the sale will not now be forthcoming, the chairman said. However, the directors are hopeful that before July, 1981, the Australian subsidiaries will have sold sufficient plots to other parties to have made good this profit.

ALLIED LONDON

Acceptances have been received in respect of more than 91 per cent of the £8.26m in 8½ per cent convertible unsecured loan stock offered by Allied London Properties in a rights issue last month on the basis of £4 nominal of stock for every five ordinary shares held.

Advance for Raeburn Inv. Trust

Net revenue of Raeburn Investment Trust rose slightly from £1.86m to £1.92m in the year ended November 30, 1980.

A final of 4.35p maintains the net dividend at 6.35p—last year's total included a non-recurring payment of 0.9p.

Stated earnings per 25p share are 6.84p, compared with 5.81p excluding the non-recurring income. Net asset value was up at 215.6p (157.5p), or 215.1p (157.3p) assuming full conversion.

Revenue was struck after all charges including £1.11m (£1.04m) tax. Preference dividends took £76,016 (same) and ordinary £1.69m (same) and a surplus of £156,091 (£94,707) has been transferred to revenue reserve.

RE-FLOAT WILL TAKE SOME TIME

The Malaysian tin producer Pengkalen says it will take a minimum of three to four months to re-float its only dredge, which sank during operation on the morning of January 9 and settled with the pontoon 20 feet below the water level.

Pengkalen cannot confirm when production will be restarted as the full extent of the damage is not yet known.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

TOMORROW

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

WEDNESDAY, JANUARY 21

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

THURSDAY, JANUARY 22

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

FRIDAY, JANUARY 23

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

SATURDAY, JANUARY 24

DIVIDEND & INTEREST PAYMENT—

SUNDAY, JANUARY 25

DIVIDEND & INTEREST PAYMENTS—

Pittard sells Beckenham site for £1.49m

Somerset-based leather manufacturer Pittard Group announces that contracts have been exchanged for the sale to Arunbridge Industrial Estates of its freehold site at Beckenham, Kent.

The sale, for £1.49m cash has produced a surplus of £830,000 over book value.

The site was formerly occupied by Pittard subsidiary R. and A. Kohnstamm and the sale proceeds will be used to offset closure costs and further reduce borrowings.

Completion of the sale is due on June 30, this year, or earlier at the option of Arunbridge. The contract provides that interest at a rate of 2 per cent over MLR will be paid from February 28 up to the completion of the outstanding purchase price.

BIDS AND DEALS

Dobson buying Marathon assets

Dobson Park Industries, the UK mining and specialised engineering company, is paying $10.82m (£4.5m) for the assets of Marathon Industries of the U.S.

The consideration will be satisfied by the allotment of 4.8m new Dobson shares, which have been placed provisionally with UK institutional investors.

Marathon is the newly-formed successor to the Marathon Coal Bit Company and its affiliates, Stephens-Keller Machine Company and West Virginia Mine Service. The book value of the net tangible assets of Marathon at October 31, 1980, was $8.64m (£3.6m) and the pre-tax income for the ten months to that date was $1.42m (£590,000).

from the board of Jenks and Cattell, and Mr. M. E. J. Clarke has been appointed a non-executive director.

OCEANA HOLDINGS ACQUISITION

Oceana Holdings is to acquire Contract Clean (Southern) for £390,000, to be satisfied by the issue of 1.56m new ordinary shares.

Taking account of the acquisition of Hygrade on December 26, 1980, Contract Clean had a combined turnover of £1.9m and adjusted pre-tax profit of £130,000 in the year to April 25, 1980.

JENKS & CATTELL

Mr. R. E. Jenks, managing director of Jenks and Cattell, has sold 220,500 ordinary shares in the company to Decongroom, which now holds 710,500 shares (29 per cent). Mr. Jenks and his wife now hold 133,536 shares (5.5 per cent).

Mr. C. W. Freedman and Mr. W. T. Sanders have resigned

ACORN SECS.

The results of the winding-up proposals put forward by Acorn Securities have been announced. Under its Articles of Association Acorn a split capital investment trust, was required to call a meeting at some stage last year to wind-up the company. A number of options were drawn up by the board and approved by shareholders at an EGM on December 30.

Of the capital shares, 3,022,939 (76.1 per cent), have accepted Britannia Shield Trust units; 812,188 (20.44 per cent) have accepted cash; and 137,403 (3.46 per cent) have accepted shares in London and Liverpool Trust.

Of the income shares 1,194,259 (90.19 per cent) have accepted cash and the rest have taken shares in London and Liverpool Trust. The estimated liquidation value per capital share is 138p less the contingent capital gains tax liability of 5p per share.

TECALEMIT AND ORBIT

The offer made by Tecalemit for Orbit Controls has become fully unconditional.

Acceptances have been received in respect of 35,775 Orbit ordinary shares, representing 99.3 per cent of those in issue. The Council of the Stock Exchange has admitted 745,878 new ordinary shares in Tecalemit to the Official List subject only to allotment; of these 740,700 have been allotted in respect of acceptances received.

The offer will remain open for acceptance until further notice.

Orbit will continue to operate under its own name from its existing base in Cheltenham as part of the recently-formed electronics division of Tecalemit.

DERITEND STAMPING

Brass and Alloy Pressings (Deritend), a subsidiary of the Deritend Stamping Company, has acquired the assets of Robinsons of Liverpool, which recently ceased production. The parent company of Robinsons is United Gas Industries.

Brass and Alloy intends to continue to supply existing customers of Robinsons with non-ferrous forgings and machine components from its Birmingham facility.

WORLD STOCK MARKETS

NEW YORK

Indices

NEW YORK —DOW JONES

	Jan. 16	Jan. 15	Jan. 14	Jan. 13	Jan. 12	Jan. 9	1980/81 High	1980/81 Low	Since Cmpil'tn High	Since Cmpil'tn Low
♦Industr'ls	975.29	963.97	968.47	965.10	968.77	958.88	1004.69 (6/1/81)	759.15 (21/4)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me B'nds	65.61	65.78	65.77	65.16	64.92	64.87	76.61 (25/6)	60.56 (18/12)	—	—
Transport.	401.98	395.10	388.65	387.18	388.54	384.92	425.68 (28/11)	233.69 (27/3)	425.68 (28/11/80)	12.23 (8/7/32)
Utilities	115.22	112.60	112.36	112.49	112.95	112.89	117.81 (6/1/81)	95.04 (27/3)	163.32 (20/4/69)	10.5 (28/4/42)
Trading Vol 000's	45,260	39,640	41,390	49,690	46,760	59,190	—	—	—	—

♦Day's high 980.29 low 964.85

	Jan. 9	Jan. 2	Dec. 26	Year ago (approx)
Ind. div. yield %	5.61	5.59	5.65	6.30

STANDARD AND POORS

	Jan. 16	Jan. 15	Jan. 14	Jan. 13	Jan. 12	Jan. 9	1980/81 High	1980/81 Low	Since Cmpil'tn High	Since Cmpil'tn Low
‡Indust'ls	153.20	152.60	151.75	151.60	151.69	151.72	160.98 (28/11)	111.09 (27/7)	160.96 (28/11/80)	3.52 (30/6/32)
§Composite	134.77	134.22	133.47	133.29	133.52	133.48	140.52 (28/11)	98.22 (15/2)	140.52 (28/11/80)	4.40 (1/6/32)

	Jan. 14	Jan. 7	Dec. 31	Year ago (approx)
Ind. div. yield %	4.45	4.39	4.36	5.11
Ind. P/E Ratio	9.41	9.52	9.56	7.95
Long Gov. Bond Yield	11.75	11.52	11.86	10.39

N.Y.S.E. ALL COMMON

Jan. 16	Jan. 15	Jan. 14	Jan. 13	1980/81 High	1980/81 Low
77.33	76.99	76.55	76.35	81.02 (28/11)	55.30 (21/1)

Rises and Falls	Jan. 16	Jan. 15	Jan. 14
Issues Traded	1,900	1,899	1,924
Rises	879	786	907
Falls	637	692	624
Unchanged	384	421	393
New Highs	—	26	38
New Lows	—	11	9

MONTREAL

	Jan. 16	Jan. 15	Jan. 14	Jan. 13	1980/81 High	1980/81 Low
Industrials	375.16	373.14	367.43	357.81	425.80 (23/2)	328.51 (27/3)
Combined	365.44	353.29	348.88	350.98	378.96 (20/10)	296.80 (27/3)
TORONTO Composite	2269.5	2257.6	2249.8	2248.6	2402.2 (28/11)	1702.5 (27/3)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
IBM	840,400	66¾	+1
Fannie Mae	711,300	11	+ ½
Fedders	487,300	7⅞	+1
LTY	436,200	18⅛	+ ½
Union Oil	385,500	45½	− ⅛
Mobil	384,300	81⅞	+ ½
Texaco	384,100	46	− ½
ATT	368,400	50⅝	+1¾
Gulf Oil	362,000	43⅞	+ ½
Phillips Petrlm	357,300	57½	−1⅛

	Jan. 16	Jan. 15	Jan. 14	Jan. 13	1980/81 High	1980/81 Low
AUSTRALIA						
All Ord. (1/1/80)	697.6	695.2	694.4	699.1	746.2 (17/11)	509.1 (3/1/80)
Metal & Minrls. (1/1/80)	678.4	677.9	678.9	686.6	878.0 (17/11)	492.3 (28/3)
AUSTRIA						
Credit Aktien (2/1/62)	64.60	64.59	64.73	64.84	69.40 (7/1/80)	64.60 (16/1/81)
BELGIUM						
Belgian SE (31/12/63)	85.07	84.14	84.31	84.17	105.75 (11/2)	82.42 (7/1/81)
DENMARK						
Copenhagen SE (1/1/73)	100.41	99.14	98.57	98.88	100.41 (16/1/81)	74.78 (5/3)
FRANCE						
CAC General (29/12/61)	106.9	106.2	(u)	104.6	120.3 (6/11)	97.1 (3/1/80)
Ind Tendance (31/12/80)	97.5	96.9	95.9	96.1	100.0 (31/12/80)	96.1 (8/1/81)
GERMANY						
FAZ-Aktien (31/12/58)	222.96	224.25	224.62	226.86	236.89 (28/2)	212.73 (28/3)
Commerzbank(Dec.1953)	690.0	695.3	695.1	692.6	743.2 (25/2)	667.0 (27/3)
HOLLAND						
ANP-CBS General (1970)	87.5	86.5	86.1	86.3	89.6 (21/11)	74.0 (27/3)
ANP-CBS Indust. (1970)	64.3	64.1	64.2	64.6	68.2 (11/1/80)	58.2 (28/3)
HONG KONG						
Hang Seng Bank (31/7/64)	1619.47	1612.06	1689.86	1696.27	1654.57 (16/11)	738.9 (19/3)
ITALY						
Banca Comm. Ital (1972)	186.16	182.79	177.66	173.39	183.18 (4/11)	85.11 (2/1/80)
JAPAN						
Dow Average (16/5/49)	7255.86	(c)	7244.78	7246.88	7262.57 (10/1/81)	6475.93 (27/3)
Tokyo New SE (4/1/68)	505.46	(c)	504.25	504.72	505.46 (16/1/81)	449.01 (10/3)
NORWAY						
Oslo SE (1/1/72)	120.81	119.06	117.69	117.69	144.70 (14/2)	116.12 (26/3)
SINGAPORE						
Straits Times (1966)	702.64	704.62	704.32	699.25	721.70 (21/11)	429.75 (3/1/80)
SOUTH AFRICA						
Gold (1958)	699.9	699.2	690.0	716.9	1026.1 (22/9)	496.5 (18/3)
Industrial (1958)	692.8	695.9	695.9	698.8	860.5 (5/11)	456.8 (2/1/80)
SPAIN						
Madrid SE (30/12/80)	102.60	102.60	102.39	102.27	102.60 (16/1/81)	100.0 (30/12/80)
SWEDEN						
Jacobson & P. (1/1/58)	424.07	420.57	417.05	412.97	427.87 (6/1/81)	384.72 (17/1/80)
SWITZERLAND						
Swiss BankCpn.(31/12/58)	298.2	300.3	301.1	300.9	317.9 (11/2)	27[illegible] (28/3)
WORLD						
Capital Intl. (1/1/70)	—	158.2	157.4	157.1	164.8 (20/11)	120.6 (27/3)

Base values of all indices are 100 except Australia All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 Industrials plus 40 Utilities. 40 Financials and 20 Transports. c Closed. u unavailable.

CANADA

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FRANCE

GERMANY

HOLLAND

ITALY

NORWAY

SWEDEN

SWITZERLAND

AUSTRALIA

HONG KONG

JAPAN

SINGAPORE

SOUTH AFRICA

Financial Rand US$0.91¾ (Discount of 31%)

BRAZIL

TEL AVIV

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

BY FRANCIS GHILES

Underwriters feel the strain

LAST WEEK was not a happy one for co-managers and underwriters of new fixed interest rate bonds. An estimated $30.5m worth was wiped off the face value of straight dollar bonds issued since the beginning of the year. This represents an average of about 3 per cent out of a total of $1bn.

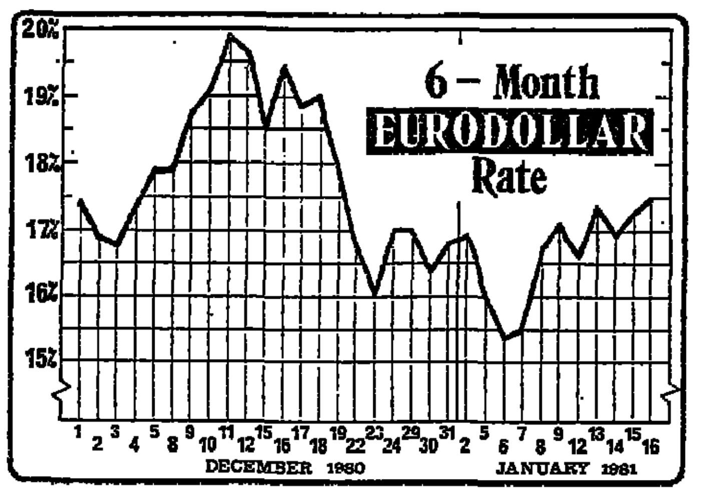
Individual issues fared much worse. The $100m 12¾ per cent issue to 1991 for Caisse Nationale de l'Energie was quoted on Friday night at a discount of 6-5 points from its indicated price of par. The 12¾ per cent bond to 1988 for the Republic of Ireland was trading at 94¼-5 on the same day while the 12¾ per cent bond to 1988 for GMAC was quoted at 95-¼.

Even prestigious names fell to a discount, with the 12½ per cent bond to 1988 for IBM trading at a discount of 3¼-2¾ per cent ahead of allotments, which were expected to be full. Trading in seasoned issues was thin with investors remaining very much on the sidelines. Short-term interest rates ended the week somewhat higher than they started, but the strength of the dollar did little to attract investors into buying bonds.

Prices of straight dollar bonds slipped on Friday by about ½ of a point on fears of bad U.S. money supply figures. These fears were confirmed when the figures were published on Friday night.

Although the discount to which most of the recent issues have fallen has halted the issuing of fixed interest dollar bonds for the time being, market observers still expect record new issues volume this year.

Five reasons are cited for such forecasts. They include the increased participation of U.S. corporations in a market they now recognise as a genuine alternative to the domestic U.S. market, the increase in size of individual issues, the failure of the Yankee market to absorb much new paper, increased borrowing by industrial companies seeking to replace short-term borrowing with long-term debt and the introduction of new borrowers to the market.



Three convertible bonds and two floating rate notes were launched last week, while in New York a $150m issue was arranged for Canadian National Railways and Mexico filed a "shelf registration" which could result in as much as $500m worth of Yankee bonds being issued.

Meanwhile, the balance of the deferred payment bond launched for Alcoa last summer by Credit Suisse First Boston was paid to the borrower last week. The issue now stands at $80m and was trading at 91½ because its initial coupon of 12 per cent is rather on the low side in the current environment.

No new issues are expected in the D-Mark sector of the market following the meeting of the German Capital Markets Sub-Committee last Thursday. Although the German banks came along with mandates from borrowers interested in arranging bonds, even at high coupon rates, the Bundesbank held firm in its wish to see no capital exports for the time being. The sub-committee next meets on February 3.

Iceland joined Denmark to become the second borrower to arrange a bulldog bond since this sector reopened last summer. The £15m, 35-year issue appears to have been comfortably covered.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
†Bank of Tokyo	75	1991	10	5¼*	100	CSFB, S.G. Warburg	5.319*
‡Du Pont Canada Inc.	65	1991	10	13½	99	Wood Gundy	13.689
‡IBM World Trade Corp.	200	1988	7	12½	100	Salomon Bros.	12.500
Prov. of Newfoundland	60	1990	7	13½	100	CCF	13.500
‡Amoco (UK) Explrn. Co.	75	1988	7	13¼	99½	Morgan Stanley, S.G. Warburg	13.364
§Marion Intl. Fin. NV	15	1996	15	9	100	Blyth Eastman Paine Webber	9.000
††Kingdom of Denmark	100	1988	7	*	*	Lehman Bros. Kuhn Loeb	*
‡††Canadian Nat. Rlwys.	150	2006	17½	14	98½	Salomon Bros.	14.18
†Christiana Bank	40	1991	10	5¼*	100	CSFB	5.453*
§Nippon Yusen	50	1996	15	7¼	100	Yamaichi Securities	7.375
§Crystaloil Intl. Fin. NV	35	1996	15	8½	100	Smith Barney Harris Upham	8.500
†C. Itoh	20	1986	5	—	100	Daiwa Secs. (HK), Kleinwort Benson (HK), Orion Pacific	—
FRENCH FRANCS							
Oesterreichische Kontrbk.	400	1986	5	14	100	Paribas	14.000
SWISS FRANCS							
‡**§Sanyo Electric	200	1986	—	4½	100	Credit Suisse	4.500
‡**§Mitsubishi Petrochemical	70	1986	—	4¼	100	UBS	4.250
‡CNT	100	1991	—	5¾	100	UBS	5.625
**Mitsubishi Oil	80	1986	—	6	100	Credit Suisse	6.000
‡Foremarks Kraftgruppe	100	1991	—	5½	99	Credit Suisse	5.885
STERLING							
‡‡Republic of Iceland	15	2016	35	14½	96	Hambros	15.109
GUILDERS							
‡**Nationale-Nederlanden	60	1988	7	10	99½	Bank Mees en Hope	10.155
Electricite de France	100	1996	10½	10½		ABN	
**Pierson Heldring en Pierson	50	1986	5	10½	99½	Pierson Heldring en Pierson	10.383
UNITS OF ACCOUNT							
Gaz de France	25	1986	5	9½	100	BNP, Banque Bruxelles Lambert	9.625

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ♦ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase Fund. ‖ Foreign bond. Note: Yields are calculated on AIBD basis.

CREDITS

BY PETER MONTAGNON

Mexico starts early with 1981 loans

MEXICO'S Banco Rural is to raise a $350m, eight-year credit in the Euromarkets through a group of banks including Intermex, Credit Agricole, which will act as agent, Bank of America, Banque Belge, and Standard Chartered. A leading Japanese bank is also expected to be joining the group.

The credit marks a quick start to Mexico's 1981 foreign borrowing programme, unlike last year when it waited several months before tapping the market. Last week the United Mexican States filed plans with the Securities and Exchange Commission for an issue of up to $500m in Yankee bonds and a further fund-raising exercise was thought imminent for the state oil concern, Pemex.

The Banco Rural credit will bear interest at a ⅝ point over Libor or ⅞ of a point over U.S. prime rate. A grace period of four years is expected.

One feature of the loan is that it will include a tax reimbursement clause whereby banks which absorb the 15 per cent Mexican witholding tax on the credit and then claim a tax credit from their own authorities will be able to charge an additional ⅛ per cent margin if they pass this credit back to the borrower.

Mexico is not the only borrower to start early with its 1981 programme. Brazil has already begun sounding out the banking community for a $300m credit for Cia Vale do Rio Doce. This will be its first public sector Eurocredit for 1981 and could act as a benchmark for future borrowings.

In the Far East, Korea Electric Company has invited bids for a $200m credit, adding its name to the growing list of borrowers who are likely to force an active first quarter on the medium-term Eurocredit markets.

As already reported this list includes such names as Spain, which has already set terms on its $500m credit, India's Oil and Natural Gas Commission (ONGC) and the Kingdom of Sweden which is preparing to launch a jumbo amounting to some $1bn.

Bankers note that Sweden, which managed to hold margins at the low level of ⅜-½ per cent on its $850m Eurocredit launched last May, would be a logical candidate for a syndicated Euronotes facility along the lines of that already tried by New Zealand.

But they feel that the credit now in preparation is more likely to be a conventional Euro-syndication. Any note facility would be in addition, probably coming after the jumbo credit is launched.

At the same time, a number of bankers are beginning to express concern over Sweden's rising total because of the state of the country's economy and its heavy borrowing requirement. Sweden has already announced that its foreign borrowing requirement this year will be about SKr 21bn to SKr 25bn compared with SKr 21bn ($4.7bn) in 1980.

India's ONGC borrowing is attracting considerable interest in the financial community because the borrower is believed to be holding out for very favourable terms.

This follows the good reception for the $680m borrowing for the Orissa aluminium plant arranged late last year with a split ⅝-¾ margin. Finer margins than this would unquestionably put India into a European industrial country risk category.

But the reason ONGC can hold out for such treatment is that bank exposure to India is very low. Bank for International Settlements statistics put international bank lending to India as of June 30 last year at only $906m. Its borrowings thus have considerable rarity value, but at the same time compressing margins too far would risk causing banks to lose interest in lending for profitability reasons.

Elsewhere, Deutsche Aussenhandelsbank of East Germany is raising $250m through a five-year Eurocredit managed by Credit Lyonnais and Bank of Tokyo. The credit bears a margin of ⅝ per cent over Libor, the same as that on its last borrowing, a $100m credit arranged by UBAF in November. This is the first East European credit to emerge this year.

Nigeria has mandated Banque de Paris et des Pays-Bas to raise between $150m and $200m over eight years with four grace. The credit is priced at a spread of ⅞ per cent above Libor with commitment and management fees totalling ⅞ per cent each.

The funds are destined for a steel-works being built by Fougerolles of France and additional export credit finance is being arranged.

Uruguay is making a relatively rare visit to the market with an $80m credit for the Palmer hydroelectric project. The credit is for 10 years with a margin of ⅞ per cent over Libor for the first six, rising to 1 per cent for the remaining four. The mandate was awarded last week to Manufacturers Hanover, Barclays, Banco do Brasil and Sanwa.

U.S. BONDS

BY DAVID LASCELLES

Fed caution keeps the market gloomy

THE PEAK FEVER that gripped the U.S. credit markets in late December already looks like ancient history. Interest rates have not tumbled down as had been expected, and bond prices have not held their gains. And the outlook is, if anything, darkening. Bonds lost more than two points last week and short-term rates rose up to one point.

The key to the market's mood at the moment is the Federal Reserve's strong reluctance to allow short-term rates to drop.

U.S. INTEREST RATES (%)	Week to Jan. 16	Week to Jan. 9
Fed Funds wkly avge	19.75	19.47
3-month Treas. bills	15.30	14.50
3-month CDs	18.25	17.75
30-year Treas. bond	12.22	11.88
Lng-term AA indust.	13.38	13.13
Lng-term AAA utility	14.25	14.00

Source: Salomon Bros., estimates.

The Fed funds rate (the inter bank rate which the Fed can manipulate) has stayed in the 19 to 20 per cent range since the new year, mainly because of Fed interventions on the down side. Nobody knows for sure, of course, what is on the Fed's mind. But theories abound.

One is the money supply. Although the key measures all ended 1980 within the set target range (a miraculous outturn, given the wildness of the market) and even showed encouraging declines a couple of weeks ago, the Fed is plainly nervous.

Last week's record $11.4bn rise in M1-B was a nasty shock, even though a sharp rise had been expected. It was due largely to the nationwide introduction of a new kind of interest bearing current banking account on January 1, which falls within the M-B category. Depositors were evidently attracted by the new accounts and shifted funds into them from elsewhere. The problem is that it will not become clear for a while where this "elsewhere" is, and, until it does, the Fed is bound to err on the side of caution.

Aside from that, the Fed may also be expecting interest rates to stay high of their own accord, in the months ahead. Despite the good intentions behind Mr. Carter's farewell budget and Mr. Reagan's tough words, the Federal borrowing requirement will be $30bn in the first quarter. There is tremendous pent-up corporate demand as well, over $10bn by some estimates. Furthermore, the pace of economic activity remains surprisingly high, as the 1 per cent gain in industrial production in December shows.

Some of the corporate borrowing pressure has already come through. In the last 10 days, Conoco, El Paso Natural Gas, Tenneco, and Cities Service (all energy companies) have issued notes or bonds; so did American Express Credit and Alcoa. Union Carbide may come to the market this week with $200m in 30-year bonds.

Traders reported that the corporates sold quite well. However, Wall Street is in a somewhat weak technical position because of the large amount of Treasury paper it bought during peak fever, which it cannot sell because of the weakening market. There was also a flurry of concern about the possible impact on the market of the sale of the $1.6bn of government securities owned by Iran.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
CECA 11½ 88	100	91⅜	91⅝	−0⅛	−1⅛	13.38
CFE 13 87	75	†90¼	91	−0½	0	15.28
Citicorp O/S Fin. 10 86	300	87¼	87¾	−0⅛	−0⅛	13.32
Citicorp O/S Fin. 12 87	200	93¾	94¼	−0⅛	−1⅛	13.40
Con. Illinois O/S 9¾ 86	150	85⅛	85⅞	−0¼	−1⅛	13.61
Denmark 11¾ 90	100	88⅞	89⅜	−0⅜	−0⅜	13.86
Dome Petroleum 13½ 92	50	96¼	96¾	−0⅜	−2⅞	14.10
EEC 11 85 (May)	75	*84⅞	85⅜	0	−0½	13.36
EEC 11 85 (August)	70	83½	84	−0⅛	−1⅛	13.59
EIB 13¾ 90	100	99	99½	0	−0⅜	13.86
Eksportfinans 9½ 87	75	84⅛	84⅝	−0⅛	−0½	13.19
Elec. de France 10 88	125	84⅛	84⅝	−0⅛	−0½	13.41
Export Dv. Cpn. 12¾ 87	100	96½	97	−0⅛	−1⅛	13.50
Export Dv. Cpn. 9½ 86	150	85½	86	−0¼	−1⅛	13.61
Fed. Dev. Bank 12¾ 85	75	95¾	96¼	−0⅛	0	13.47
Fin. Exp. Credit 10½ 85	50	87⅞	88⅜	−0⅜	−1	14.22
Finland, Rep. of, 9½ 86	100	*83⅝	84⅛	0	+0⅛	14.08
Ford Credit O/S 14⅝ 83	150	98⅝	99⅛	−0⅛	−0⅛	15.09
Ford O/S Fin. 12⅝ 85	250	90	90½	0	0	15.83
GMAC O/S Fin 13¾ 85	100	97¾	98¼	0	−0⅛	13.98
GMAC O/S Fin. 12 87	100	91¾	92¼	−0¼	−0⅞	13.87
Gen. Mtrs. O/S 11¾ 87	100	91¼	91¾	−0⅛	−0⅜	13.73
Goodyear O/S 12½ 87	75	95¾	96⅛	+0⅛	−0⅛	13.46
Hudson's Bay 11½ 90	75	88½	89	−0⅜	−1¾	13.66
IBM Canada 10½ 85	50	93⅞	94⅜	−0⅜	+1¼	12.24
Int. Harvester 12¾ 85	115	*94⅜	94⅞	0	+0⅛	14.38
J. C. Penney Int. 12⅜ 95	100	*95⅞	96⅜	+0⅜	−1⅛	13.40
McGraw 13½ 85	75	†97⅛	97⅝	+0⅛	+1⅛	14.30
NorWest Ind. 13⅝ 87	50	†96	96¾	0	−0½	14.49
Nova Scotia 10¾ 90	50	85¾	86¼	−0⅜	−1	13.41
OKB 10 85	50	89	89½	−0½	−0⅜	13.28
Pemex 11½ 88	100	85⅞	86⅞	+0⅛	−1⅛	14.63
Quebec Hydro 11½ 92	100	87⅞	88⅜	0	−0⅛	13.57
Repsrael O.S 11½ 88	100	83½	83¾	−0⅛	−0½	15.31
Roylease 11¾ 85	50	91⅝	92⅛	−0⅛	−0⅜	13.77
SNCF 12⅜ 85	50	96⅜	96⅞	−0⅛	−0¼	13.40
Sweden 12⅞ 85	150	95¾	96¼	−0⅛	0	13.57
Swed. Ex. Cred 12½ 85	40	95⅜	95⅞	−0⅛	−0⅛	13.86
Swed. Ex. Credit 12 83	50	94⅝	95⅛	−0⅜	−1	14.34
Transamerica 12½ 83	50	95¼	95¾	−0⅛	−0⅞	14.46
Unilever NV 9¾ 90	100	82½	83	0	−0½	12.99
World Bank 9⅝ 85	200	87⅞	88⅜	−0⅛	−0⅜	13.44
World Bank 10¼ 87	300	86⅞	87¼	0	−0½	13.35

Average price changes ... On day −0⅛ on week −0⅝

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 8⅝ 90	100	93½	94¼	+0⅛	+0⅛	9.35
Australia 8⅝ 90	250	96⅝	97⅛	−0⅛	+0⅛	8.61
Austria, Rep. of 8¾ 92	150	93¼	94	−0⅛	−0⅛	9.15
BFCE 8½ 85	100	92¾	93½	+0½	+0½	9.01
CECA 7¾ 92	150	92⅜	92⅞	+0⅛	−0⅛	8.91
CII-Honeywell 8¾ 90	125	94⅞	95⅝	0	+0¼	9.13
Denmark 8¾ 92	100	95⅜	95⅞	+0⅛	+0½	8.90
EIB 8½ 90	200	96⅜	96⅞	0	−0⅛	9.04
ESCOM 9¼ 87	100	97¾	98¼	0	0	9.70
Iberduero SA 9 90	100	98¼	99	0	+0⅛	9.21
Ind. Bk. Finland 8½ 90	50	94¼	95	+0¼	+0½	9.35
Japan Air Lines 8⅝ 87	100	96¼	96⅞	+0⅛	+0¼	8.82
Japan Dev. Bk. 7¾ 87	100	92⅞	93⅝	+0⅜	+0½	9.07
Kobe, City of 8 90	120	93⅞	94⅜	0	−0⅛	8.91
Midland Int. Fin. 8½ 90	180	96¼	96¾	+0½	+0⅛	9.04
Norway 7½ 85	250	97	97¾	−0¼	0	9.30
Nuclebras 9¾ 82	100	91½	92¼	0	−0½	11.37
OKB 8¼ 92	150	93	93¾	0	+0⅜	9.20
Oslo, City of 8¾ 90	80	99⅝	100⅜	0	−0¼	8.74
Venezuela, R. of 9¾ 90	150	97½	98	0	0	10.11
World Bank 8 90	700	92⅝	93⅛	−0½	−0⅜	9.12
World Bank 10 86	150	105⅜	106⅝	+0⅜	−0⅜	8.49
World Bank 10 90	200	105½	106½	0	−2⅞	9.01

Average price changes ... On day −0⅛ on week −0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Austria, Rep. of 5¾ 90	100	97¾	98¼	+0⅝	−0⅛	5.65
Bayer Int. Fin. 5¾ 92	100	99¼	100	−0½	−0⅜	5.26
Bergen, City of 6 90	50	100½	100¾	−0½	−0½	5.91
Buhrm'n-Tetterode 7 90	40	104⅝	104⅞	−0¼	−0½	6.30
Copenhagen Tele 5¾ 90	60	95⅛	95⅜	−0¼	−0½	6.42
Denmark 5¾ 90	80	95⅞	96⅛	−0⅞	−1	6.30
EIB 4½ 94	100	†86	86½	+0⅛	−0⅜	5.87
Elf de France 5¾ 90	100	98¾	99	+0½	+0¼	5.40
Eurofima 5¾ 92	30	101¾	101⅝	−0⅜	−0¼	5.58
F. G. H. Hypo Bk 6 90	50	†102	103	0	+0¼	5.64
Finland, Rep. of 5⅜ 90	80	93⅞	94⅛	+0⅛	0	6.48
GZB 4½ 89	100	†87½	88	−0¼	−0⅜	6.09
Int.-Amer. Dev. 7 90	80	104⅜	104⅝	−0¼	−1⅛	6.34
Japan Dev. Bk. 5¾ 90	100	*102	102¼	0	−0⅜	5.48
Jutland Tele. 5½ 90	50	*95½	96	−0⅛	+0¼	6.12
Mt. Blanc Tunnel 5½ 90	60	*97¾	98	−0⅜	−1	5.79
Newaq 5¾ 90	80	99¼	99¾	−0⅜	−1⅛	5.81
Nippon Tel. & T 4⅞ 89	100	*93⅝	93⅞	+0⅛	+0⅛	5.16
Nomes Komm. 4⅞ 91	100	*87¼	87½	−0⅛	+0½	6.00
OKB 4⅞ 91	100	*89½	89¾	+0⅛	+0⅛	5.69
OKB 6 90	100	101⅝	102	0	+0⅝	5.73
Oslo, City of 4⅝ 91	100	86	86¼	−0⅜	−0⅛	6.18
Oslo, City of 5⅞ 90	80	100⅝	100⅞	0	+0⅛	5.77
Philips Lamps 5¼ 92	100	96	96¼	−0½	−0½	5.71
Sekisui Pre. Hms. 6 90	80	101½	101⅞	0	−0⅜	5.77
Shikoku El. Pwr. 4¾ 89	100	†93	94	+0¼	+1¼	5.72
Trade Dev. Fin. 6¼ 90	50	†95¾	96½	+0¼	−0½	6.79
Voest-Alpine 5¾ 90	80	97½	97¾	−1½	−1½	6.06

Average price changes ... On day −0½ on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 5.6 83	30	91¾	92½	−0⅛	+0¼	8.93
Australia 6½ 88	20	87¼	89	0	+1¼	8.74
EIB 7¼ 89	12	92½	93¼	+0⅛	+0⅛	8.91
Finland 5.6 83	10	90¾	91½	0	+0⅛	9.32
Finland 6.8 88	10	86¾	87½	−0⅛	0	9.32
Finland Rep. of 8¼ 87	15	94½	95⅞	0	+0½	9.38

Average price changes ... On day 0 on week +0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Bell Canada 10¼ 86 C$	60	91⅛	91⅝	−0⅛	+0⅜	12.94
CIBC 13½ 85 C$	50	†98¼	98½	+0¼	+0¼	13.72
CIBC 11½ 85 C$	60	†93¾	94½	0	+0⅛	13.26
Federal Dev. 11½ 90 C$	60	†86½	87½	+0⅜	−0⅛	14.02
Fst. Can. Inv. 10 84 C$	50	†89¼	90	−0½	−0¼	14.06
R. Bk. Canada 10 86 C$	40	90	90¾	−0¼	−0⅜	12.55
Tordom Cpn. 13½ 85 C$	30	†98½	99¼	0	0	13.80
M. Bk. Dnmk. 9.91 EUA	25	91½	93	+0¼	+1½	10.21
SOFTE 8¾ 89 EUA	40	87⅛	88½	0	−0⅜	10.51
U. Bk. Nrwy 9½ 90 EUA	18	99	100¼	0	+0¼	9.55
Bk. Mees & H. 10 85 Fl	75	101	101½	−0⅜	−0⅛	9.62
F. G. Hypo 9¾ 87 Fl	60	93½	94	−0⅛	−0¼	11.11
Heineken NV 10 87 Fl	100	97⅜	97⅞	0	−0⅝	10.49
Nat. Inv. Bk. 10 87 Fl	75	97¼	97¾	0	−0¼	10.52
Nat. Neder. 9½ 87 Fl	60	94½	95	−0⅜	−0½	10.62
Ned. Midd. Bk. 10 85 Fl	75	101	101½	0	−0⅛	9.63
Aero Paris 13¾ 87 FFr	150	96½	97½	−0⅛	−0⅛	13.80
Charb'nages 13⅞ 85 FFr	400	99⅝	100⅜	+0⅛	+0¼	13.82
CECA 14¼ 86 FFr	150	100⅝	101⅝	0	0	13.89
EIB 14⅛ 88 FFr	300	99	100	0	−0⅛	14.24
Finland 11 84 FFr	80	90⅞	91⅞	+0⅜	+0⅛	14.07
Gaz de France 11 84 FFr	150	91⅞	92⅝	+0¼	+0⅜	13.72
La Redoute 14⅛ 85 FFr	125	97	98	+0⅛	0	15.11
Renault 9¾ 85 FFr	100	84⅜	85⅜	+0⅜	+0¼	14.53
Utd Mex Sts 14 85 FFr	150	98⅝	99⅝	0	0	14.21
Acona 14 85 £	20	94⅝	95⅜	−0⅛	−0⅞	15.50
Beneficial Fin. 14⅛ 90 £	20	93¾	94¾	−0⅛	−0⅞	15.46
Beneficial Fin. 14¼ 90 £	20	93¾	94¾	−0¼	−0⅝	15.45
BNP 13½ 91 £	15	95¼	96	−0¼	−0⅜	14.35
CECA 13½ 88 £	20	95¼	96	0	−0⅞	14.44
Citicorp O/S 13½ 90 £	50	95¾	96½	−0½	−1	14.36
Fin. for Ind. 14½ 88 £	20	99⅝	100⅜	−0⅛	−0⅜	14.47
Fin. for Ind. 13¾ 87 £	20	96½	97¼	−0¼	−0⅜	14.46
Gen. Elec. Co. 12½ 89 £	50	93	93¾	−0⅜	−0⅜	13.88
Peugeot SA 14 90 £	23	93⅝	94⅜	−0¼	−0⅜	15.18
Rothschild 14¾ 90 £	12	96¼	97	−0¼	−0⅞	14.88
Swed. Ex. Cr. 15¾ 85 £	20	101⅞	102⅞	0	−0¼	14.40
Banobras 8¼ 90 KD	7	†87¼	87¾	0	+0¼	10.43
CCCE 8⅛ 91 KD	10	†81½	82	0	0	11.21
Sonatrach 8½ 90 KD	12	†88¼	88¾	0	+0¼	10.52
Akzo 9¾ 87 LuxFr	500	90¾	91¾	+1⅞	+2	11.14
Euratom 9¾ 88 LuxFr	600	94¾	95¾	+0½	+1	10.89
Eurofima 10½ 87 LuxFr	500	98⅝	99⅝	+0¼	+0½	10.67
EIB 9¾ 88 LuxFr	600	96	97	+0⅜	+0⅞	10.48
Volvo 9¾ 87 LuxFr	500	90½	91½	0	+0¼	11.72

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Allied Irish Bank 5¼ 87	0¼	98½	99	2/7	16⅝	16.84
Bk. of Montreal 5¼ 90	0¼	99⅞	100⅜	18/6	19½	19.48
Bank of Tokyo 5¼ 88	‡0⅛	97½	98¼	26/1	13.94	14.22
BBL Int. 5 86	0¼	97¼	98¼	20/5	16½	16.84
Bergen Bk. A/S 6 89	‡0¼	97¾	98¼	29/2	18.19	18.56
BNP 5½ 88	0¼	98⅞	99⅜	29/1	14.44	14.57
CNT 5¼ 86	§0½	97⅞	98⅜	16/4	13¼	13.50
Citicorp O/S F. 84	‡0	99¼	99¾	31/1	18⅜	18.49
C. Itoh 5¼ 87	0¼	97⅜	97⅞	18/3	12⅞	13.19
Co-operative Bk. 5 86	0⅜	97½	98	15/5	15⅛	15.50
Den Norske Credit 5 90	0¼	97¾	98¼	5/2	15¾	16.07
Genfinance 5¼ 87	0¼	97⅝	98⅛	30/4	15⅛	15.41
Giro und Bank 5¼ 91	0¼	98¼	98¾	23/3	20⅛	20.81
GZB 5½ 89	‡0¼	98	98½	1/2	15.06	15.33
Jugobanka 8 89	0⅞	†91	93	23/5	16¼	18.21
Ind. Bank Japan 5¼ 87	0¼	97½	98	15/4	13.31	13.62
Ind. Bank Japan 5¼ 88	0¼	97	97½	9/4	13⅛	13.50
Lloyds Eurofin 8 90	0¼	94¾	95¼	3/7	14½	15.24
Lloyds Eurofin 5¼ 92	0¼	97⅞	98⅜	4/6	17¼	17.58
LTCB Japan 5¼ 86	0¼	100½	101	13/6	20.19	20.04
Man. Hanov. O/S 5¼ 94	‡0⅛	97⅞	98⅜	29/2	18⅛	18.47
Midland Intl. Fin. 5 89	0¼	99⅞	100⅜	30/6	19.56	19.54
Midland Intl. Fin. 5¼ 92	0¼	98	98½	5/6	17.19	17.49
Nacional Fin. 6¼ 88	0¼	98½	99	25/1	9.69	9.81
Nat. West. 5¼ 94	§0¼	95⅞	96⅜	14/4	13¼	13.78
Nat. West 5¼ 92	§0¼	96	96½	23/4	13.69	14.22
Nippon Credit 5¼ 87	‡0⅛	98¾	99¼	6/2	16.08	16.25
Sparebanken 5 87	0¼	98½	99¼	19/6	19⅞	20.10
Standard Chart. 5¼ 90	0¼	97½	98	6/3	12.06	12.34
Svenska Hndlsbk. 5 87	0¼	98⅞	99⅜	15/7	17.81	17.97
Bq. Ex. d'Alg. 4¾ 89 SF	0⅜	90½	91	18/6	7½	8.28

Average price changes... On day +0¼ on week 0

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Bow Valley Inv. 8 95	4/81	23.12	103¼	104½	+1½	12.22
Canon 6¾ 95	1/81	829	115¾	116¾	+0¾	4.02
Credit Suisse 4¾ 93	10/79	1278	114⅝	116⅝	−1⅞	−3.36
Digicon Fin. 8½ 95	10/81	29.5	99	100½	+0⅛	8.46
Enserch Fin. 8½ 94	7/80	30.25	162	163½	+9¾	−1.51
Hanson O/S Fin. 9½ 95	1/81	1.92	100¾	101¾	+0⅛	−2.23
Ina Overseas 8¾ 2000	4/81	42	102¾	103½	0	9.72
Inchcape Ltd. 8 95	2/81	4.55	97⅞	98⅞	+0⅛	−1.76
Jaccs 7½ 95	11/80	565	122¼	123⅝	+0⅛	2.01
Marion Int. Fin. 9 95	12/80	23.25	98½	99½	−0⅛	−4.81
Matsushita El. 7½ 95	11/80	690	100¾	101½	+0⅜	1.33
MEPC 8¼ 96	2/81	2.47	91½	92½	+0⅜	4.12
Niigata Eng. 7½ 96	1/81	327	103⅜	104½	+0½	−0.71
Nissho-Iwai Co. 8 96	10/80	398	96⅞	97⅞	0	0.10
Ricoh 6⅝ 95	8/80	604	115¾	116⅝	+0⅜	1.35
Sumitomo M. Ind. 7 95	2/81	181	109⅜	110⅜	−0¼	−0.39
Swiss Bk. Cpn. 6¾ 90	9/80	200	93½	95½	0	9.85
Taylor Woodrow 8¾ 90	1/81	4.94	93¾	94¾	−0⅛	2.54
Transco Int. 8¾ 95	2/81	68	95½	97	0	21.47
Tricorp 8½ 95	12/80	31.25	94	96½	0	20.24
Union Bk. Switz. 5 89	2/80	121.4	91½	93½	−0½	−12.56
Fujitsu 5.84 DM	7/79	431.5	*139⅜	140⅛	+0⅜	−2.83
Sharp Cpn. 6½ 88 DM	9/80	595	132½	133½	+0⅛	−3.02
Uny Co. 6½ 85 DM	11/79	967.3	110	111	+1⅛	−1.33

BONDTRADE INDEX AND YIELD

	Medium term		Long term	
Jan. 16 ...	n.a.	n.a.	n.a.	n.a.
Jan. 9 ...	n.a.	n.a.	n.a.	n.a.
High '81 ...	n.a.	n.a.	n.a.	n.a.
Low '81 ...	n.a.	n.a.	n.a.	n.a.

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euroclear
U.S. $ bonds		
Last week ...	1,752.6	4,245.6
Previous week ...	725.4	1,617.7
Other bonds		
Last week ...	358.0	336.4
Previous week ...	515.7	283.3

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Arab Company for Trading Securities SAK; Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Credit Commercial de France (Secs.) London; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Manufacturers Hanover; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Bank; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on January 16

This announcement appears as a matter of record only.

KLM
Royal Dutch Airlines

U.S. $170,000,000
Export Credit Facility

to assist with the purchase of six
Airbus Industrie A310-200 aircraft

Midland Bank Limited
Lead Manager and Agent

Algemene Bank Nederland N.V.
Lead Manager

Crédit Lyonnais
Lead Manager

Dresdner Bank Aktiengesellschaft
Co-Lead Manager

Banque de Paris et des Pays-Bas
Co-Lead Manager

Banque Française du Commerce Extérieur

Midland Bank Limited

December 1980

This announcement appears as a matter of record only.

LAKER AIRWAYS

U.S. $131,000,000
Loan Facility

to assist with the purchase of three
Airbus Industrie A300 B4-203 aircraft

Midland Bank Limited

The Royal Bank of Canada

Crédit Lyonnais
London Branch

Clydesdale Bank Limited

Banque Française du Commerce Extérieur
Licensed Deposit Taker

Banque Nationale de Paris

Canadian Imperial Bank of Commerce

Citibank N.A.

Creditanstalt-Bankverein

Dresdner Bank Aktiengesellschaft
London Branch

Bayerische Vereinsbank Aktiengesellschaft
London Branch

Société Générale Bank Limited

SFE Banking Corporation Limited–SFE Group

Agent
Midland Bank Limited

January 1981

This announcement appears as a matter of record only.

SABENA

Société Anonyme Belge d'Exploitation de la Navigation Aérienne

U.S. $48,000,000
Export Credit Facility

to assist with the purchase of two
Airbus Industrie A310 aircraft

Midland Bank Limited
Lead Manager
and International Westminster Bank Limited

Crédit Lyonnais
Lead Manager and Agent
and a syndicate of French Banks

Deutsche Girozentrale–Deutsche Kommunalbank
Lead Manager
and a syndicate of West German Banks

Midland Bank Limited

December 1980

This announcement appears as a matter of record only.

air new zealand

£2,800,000
Export Credit Facility

to assist with the purchase of a Redifon Boeing 747 Flight Simulator
with Novoview SPI Visual System

Midland Bank Limited

National Westminster Bank Limited

Agent
Midland Bank Limited

December 1980

This announcement appears as a matter of record only.

GUINNESS PEAT AVIATION

U.S. $8,060,000
Medium Term Loan and Related Facilities

to assist with the purchase of one
Boeing 737-200 Advanced aircraft

Midland Bank Limited

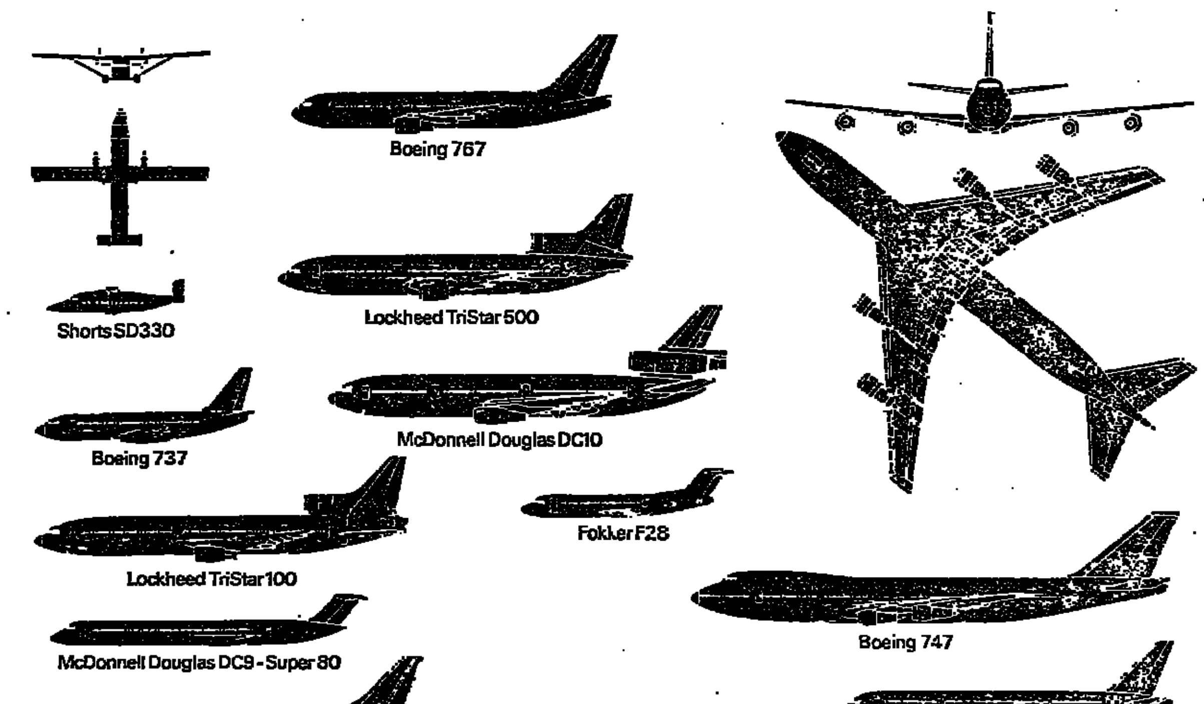
Northern Bank Finance Corporation Limited

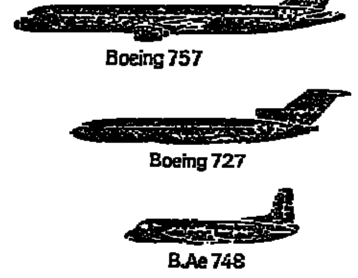
Irish Intercontinental Bank Limited

Arranged by
Midland Bank Limited

December 1980

We deliver all shapes and sizes of financial packages.





We deliver.
MIDLAND
Test us.

Contact:
Bob Wyatt, Tony Cooper, Mike Pritchett
Midland Bank Limited,
International Division,
60 Gracechurch Street, London EC3P 3BN
Telephone: 01-606 9944

Midland Bank International
Aerospace Group

This document includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Sonic Sound Audio Holdings P.L.C. ("the Company"). The directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other facts the omission of which would make misleading any statement herein whether of fact or opinion. All the directors accept responsibility accordingly.
Duplicate copies of this document, each having attached to it a copy of the documents specified below, have been delivered to the Registrar of Companies for registration.
Application has been made to the Council of The Stock Exchange for the whole of the share capital of the Company, both issued and now to be issued, to be admitted to the Official List.

Sonic Sound Audio Holdings P.L.C.

Registered in England under the Companies Acts 1948 to 1980. Number 1277965.

Placing by Earnshaw, Haes & Sons

of 2,250,000 Ordinary Shares of 10p each at 80p per share

Directors
Lionel Geoffrey Astor (Chairman and Joint Managing Director)
248-256 Tottenham Court Road, London W1P 9AD.
Sidney Harold Astor (Joint Managing Director)
248-256 Tottenham Court Road, London W1P 9AD.
Derek Fieldhouse FCA (Financial Director)
248-256 Tottenham Court Road, London W1P 9AD.
Narendrakumar Dalsukhbhai Shah (Sales Director)
248-256 Tottenham Court Road, London W1P 9AD.

Secretary and Registered Office
Derek Fieldhouse FCA
24-27 Thayer Street, London W1M 5LJ.

Bankers
Barclays Bank Limited,
311/313 High Holborn, London WC1V 7NA.

SHARE CAPITAL

Authorised		Issued and to be issued fully paid
£1,000,000	in 10,000,000 Ordinary Shares of 10p each	£600,000

INDEBTEDNESS
On 3rd January 1981 the Company and its subsidiaries ("the Group") had outstanding a secured bank overdraft of £153,486 and hire purchase commitments totalling £71,238. Except as aforesaid and for indebtedness and guarantees within the Group, neither the Company nor any of its subsidiaries had outstanding, or created but unissued, any loan capital (including term loans), mortgages or charges, borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or guarantees or other material contingent liabilities.

Auditors and Joint Reporting Accountants
Halpern and Woolf
(Chartered Accountants),
24-27 Thayer Street, London W1M 5LJ.

Solicitors to Earnshaw, Haes & Sons and Joint Solicitors to the Company
Clifford-Turner,
Blackfriars House, 19 New Bridge Street, London EC4V 6BY.

Stockbrokers
Earnshaw, Haes & Sons,
17 Tokenhouse Yard, London EC2R 7LB, and The Stock Exchange.

Joint Reporting Accountants
Arthur Andersen & Co. (Chartered Accountants),
1 Surrey Street, London WC2R 2PS.

Joint Solicitors to the Company
Sears & Kraines,
42 Portland Place, London W1N 3DG.

Registrars and Transfer Office
Williams & Glyn's Registrars Limited,
P.O. Box 27, 31 St. Andrew Square, Edinburgh EH2 2AB.

Introduction
Sonic Sound Audio Holdings P.L.C. ("the Company") and its subsidiaries ("the Group") act as retailers of hi-fi, radio, electronic home and in-car entertainment equipment from a number of shops occupying prime locations in Tottenham Court Road, London W.1. In addition, it licenses space in its shops to retailers selling related products including hi-fi accessories, video equipment, calculators, cameras, photographic equipment and telecommunications equipment. Tottenham Court Road has become established as the major United Kingdom centre for the electronic home entertainment retail trade and its reputation attracts customers from throughout the country and from overseas.

Reasons for placing
The reasons for the placing are first to provide the Group with additional working capital for the further expansion of its existing trading activities, and secondly to give it flexibility in the potential acquisition of retail businesses operating in other areas of the electronic home entertainment field and in the market for computers for domestic and small business use.

History
The Company's business started in November 1976 when, following its incorporation as Astor Hi-Fi Limited by Lionel and Sidney Astor, the Company began trading from leasehold premises at 248 to 250 Tottenham Court Road as retailers of hi-fi equipment, radios, televisions, electronic home and in-car entertainment equipment. In 1978 the Company acquired further leasehold interests in the adjoining premises at 251 to 256 Tottenham Court Road. This gave the Company a significant presence in this major retailing centre and enabled it to expand the range of products offered for sale. This was achieved by increasing the Company's own product range and by formalising and extending the licensing of space in its shops to retailers specialising in allied areas of the electronics market, including video equipment, cameras, calculators and watches.

With effect from 2nd November 1980 the Company acquired the entire share capital of Sonic Sound Audio Limited ("Sonic Sound") from Lionel and Sidney Astor, pursuant to the material contract b. in paragraph 13 below, thus acquiring the leasehold interest in three units (which the Group has converted into a single sales unit) in the new EMI Centre, opposite the Group's other shops. This has enabled the Group and its licensees to expand their selling space to cater for the growth in demand for their products. At the same time, a warehouse was acquired to provide additional storage space to ensure the availability of products to customers and to facilitate bulk buying from suppliers. The Group has this month reached agreement in principle for the grant of licences to sell its own range of products at two further shops in Tottenham Court Road, which are expected to be open by the end of March 1981.

Operating philosophy
The directors' policy is for the Group and its licensees to offer, by having on display, a wide range of electronic entertainment equipment. The directors have concentrated the Group's resources in the hi-fi, radio and in-car equipment field and have achieved a diversity of product lines by licensing space in its shops to specialist retailers of allied products. The granting of licences enables newly developed products to be offered to customers as soon as there is sufficient demand through a licensee who already has experience of the products. This minimises the Group's financial commitment in expanding its product range and provides a sound operating base by ensuring a fixed minimum return through licence income. The close concentration of the shops also facilitates tight management control.

The directors have concentrated their initial sales outlets in Tottenham Court Road because they believe that this is, and will continue to be, the major UK market place for home entertainment and small business electronic equipment. The area attracts many overseas visitors to whom the Group offers specialised export advice and service. During the year ended 1st November 1980 approximately 13 per cent. of turnover was represented by sales to overseas customers.

Product range
The Group's range comprises hi-fi, radios, televisions, electronic home and in-car entertainment equipment. The product ranges stocked cater for both the specialist and the general customer. The shops aim to demonstrate to customers that they can provide from stock all the customers' likely hi-fi and related requirements by having on display as many product lines as possible. To assist customers in their hi-fi selections there are three soundproof demonstration studios to which an extensive variety of equipment is connected by "comparators". Prospective customers can at the touch of a button listen to a multiplicity of combinations of hi-fi equipment in an environment comparable to their own home and the directors consider that this facility is a significant sales attraction.

The Group stocks the products of most of the leading manufacturers and is able, because of its high turnover, to obtain supplies on competitive terms which benefit both the Group and its customers. During the year ended 1st November 1980 no supplier accounted for more than 18 per cent. of goods purchased.

Licences
The Group grants licences to retailers of allied products. A licensee is granted floor space and is responsible for its own stocking and staffing. In return, the Group usually has a minimum income with additional income related to the licensee's turnover. As well as giving customers a greater range of new products, licensing provides a sound base for the Group's other trading activities by ensuring that a high proportion of the overheads is covered by minimum licence receipts.

The Group's licensees operate in the following areas — video equipment and films, hi-fi accessories and spares, photographic equipment, calculators, watches, telecommunications equipment and small business equipment including calculators and small computers. There are currently six licensees and during the year ended 1st November 1980, one licensee accounted for 48 per cent of gross licence income. In respect of the year ending 31st October 1981 the directors expect that no licensee will account for more than 38 per cent. of gross licence income.

Management and employees
Lionel Astor (aged 45) has spent most of his working life in hi-fi retailing and allied businesses. Since founding the Group in 1976 he has been Chairman and Joint Managing Director and his principal responsibilities are negotiating terms with suppliers and identifying new areas and product lines into which the Group can expand.

Sidney Astor (aged 51) has many years experience in hi-fi retailing. He joined his brother to found the Group in 1976 and, as Joint Managing Director, he has overall responsibility for the Group's sales and for the purchase of certain specialised products.

Derek Fieldhouse (aged 35) qualified as a chartered accountant in 1970 and, following seven years in the retail field, latterly as Group Accountant with Harris Queensway Group Limited, joined the Company as Financial Director on 1st August 1980 and was appointed Company Secretary in December 1980. He is responsible for the Group's accounting and financial administration.

Narendra Shah (aged 26) has spent all his working life in the retailing of hi-fi and allied products. He joined the Company in 1976 as a Sales Manager, was appointed Sales Director in September 1980 and is responsible for the day to day control of the shops and of the retail staff.

Each of the directors has entered into a full time service contract with the Company for five years from 2nd November 1980.

The Group currently has thirty-five employees most of whom are engaged in selling. The majority of the employees have a number of years retailing experience and the level of staff turnover is low with many of the staff having been with the Company since its formation. The Group policy is to recruit and train its own employees for management. Shop managers and sales staff are remunerated by a basic salary plus commission based on shop profitability and sales respectively. The Group is contracted into the State Scheme for the employees' pension arrangements.

Properties
The Group occupies three adjoining properties on the east side and a large new purpose-designed store in the new EMI Centre on the west side of Tottenham Court Road. The directors consider that the Group has an advantage over most of its competitors in that its sites are closer to Oxford Street and Tottenham Court Road Underground Station. The Group also has a warehouse at King's Cross.

The following comprise brief details of the properties from which the Group operates:

Location	Area and description	Tenure
248 to 250 Tottenham Court Road, London W.1.	2,721 sq.ft. comprising ground floor sales area, basement offices and storage.	Following expiration of sub-underlease, the landlords have agreed to grant a new lease for 25 years from 22.6.1980 at commencing exclusive annual rent of £45,000 subject to annual increases of £5,000 in 1983 and 1984 and to five-yearly reviews from 1985.
North Unit, 251 to 256 Tottenham Court Road, London W.1.	4,314 sq.ft. comprising ground floor sales area, lower ground floor sales area, demonstration studios and storage.	Sub-underlease for 25 years from 25.3.1978 at current exclusive annual rent of £37,250 subject to five-yearly reviews.
South Unit, 251 to 256 Tottenham Court Road, London W.1.	1,646 sq.ft. ground floor sales area.	Sub-underlease for 25 years from 25.3.1978 at current exclusive annual rent of £26,000 subject to five-yearly reviews.
22 to 24 Tottenham Court Road, London W.1.	5,509 sq.ft. comprising ground floor sales area, demonstration studio, mezzanine sales area and storage.	Agreement to grant underlease for 25 years from the quarter day immediately preceding completion of the EMI Centre development (anticipated approximately March 1981) at commencing exclusive annual rent of £105,000 increasing to £110,000 in 1982 and subject to five-yearly reviews from 1986.
8 St. Chad's Place, King's Cross, London W.C.1.	3,200 sq.ft. warehouse.	Leasehold expiring 28.9.1982 at exclusive annual rent of £2,650.

Financial history
The summary of sales, gross licence income and profit before exceptional item and taxation of the Company is set out below:

	1980	1979	1978	1977
	£	£	£	£
Sales	2,601,136	2,123,962	1,080,210	623,457
Licence income, gross	227,858	188,370	131,477	52,219
Profit before exceptional item and taxation	392,777	251,739	174,397	54,309

The year ended 1st November 1980 has proved successful with sales and profit before exceptional item and taxation increasing 22 per cent. and 56 per cent. respectively over the previous year as a result of a significant increase in the volume of sales. Sales for November and December 1980 have been at a satisfactory level.

The exceptional item provided in 1980 is explained in Note 3 to the financial information included in the Accountants' Report.

The audited current cost profits before exceptional item and taxation for 1980 and 1979 amounted to £335,752 and £234,945 respectively.

Profit for 1981
The directors expect that, in the absence of unforeseen circumstances, the profit before taxation for the year ending 31st October 1981 should not be less than £800,000. No exceptional items are included in the forecast of profit before taxation.

Following the opening of the new premises at the EMI Centre, the Group has a contracted minimum licence income for the year ending 31st October 1981 of £297,500. The Group's retailing activities have continued to expand despite the economic climate. As well as incorporating the anticipated income from the new store in the EMI Centre and from the two new licences in Tottenham Court Road, this forecast takes account of the directors' expectation of an increase in the turnover from the existing stores compared to that achieved in 1980.

The principal assumptions on which the forecast of profit before taxation has been made and the letters reporting on it are set out below.

Dividends
On the assumption that profit before taxation is not less than £800,000 as forecast above, it is the directors' intention to pay dividends in respect of the year ending 31st October 1981 totalling £269,000, equivalent to 4.48p per share net (6.40p per share gross including an associated tax credit at the rate of 3/7 ths). The directors expect to pay 2.24p net as an interim dividend in July 1981 and to recommend 2.24p net as a final dividend in or about February 1982. Such dividends would represent a gross yield of 8.0 per cent. on the placing price of 80p.

Appropriation of forecast profit
By way of illustration only, the following table sets out how a profit before taxation of £800,000 for the year ending 31st October 1981 would be appropriated assuming (i) a charge to corporation tax of £163,000 calculated on the basis of existing tax legislation, assuming enactment of the proposals outlined in the Consultative Document on Stock Relief issued by the Inland Revenue on 14th November 1980, taking into account forecast capital expenditure and utilisation of £197,126 of agreed prior year tax losses and (ii) a charge to corporation tax of £416,000 based on a notional tax rate of 52 per cent.

	Anticipated effective tax rate of 20.4%	Notional tax rate of 52%
	£	£
Profit before taxation	800,000	800,000
Less taxation	163,000	416,000
Profit after taxation	637,000	384,000
Less forecast dividend	269,000	269,000
Retained profit	368,000	115,000
Earnings per share, based on 6,000,000 issued Ordinary Shares	10.62p	6.40p
Price earnings multiple at the issue price of 80p per Ordinary Share	7.53 times	12.50 times
Gross dividend yield on the issue price for the Ordinary Shares	8.00%	8.00%
Dividend cover	2.37 times	1.43 times

Prospects
The Group is well established in the home electronic equipment retail trade and intends to expand the sales of its existing products as well as selling new products when they become available. The directors consider that recent microchip developments are likely to result in a number of new and more sophisticated audio and visual products. The new product areas are expected to include personal telecommunications equipment, domestic computers, electronic games and more sophisticated video equipment. Some of these new products may be marketed through the granting of additional licences.

The Group intends to continue its expansion both in Tottenham Court Road and into other locations either by the acquisition or leasing of shops or by obtaining in-store licences itself. The Group will explore opportunities in markets allied to its existing business, including the acquisition of suitable companies.

Principal assumptions relating to profit forecast
The forecast of profit before taxation for the year ending 31st October 1981 of not less than £800,000, set out in this prospectus, includes results shown by unaudited management accounts for the period to 3rd January 1981, and is based on the following principal assumptions:

1. that real personal disposable incomes and the trends in consumer spending in the United Kingdom will be at levels not materially different from those in 1980,
2. that licences are granted in respect of the two further shops in Tottenham Court Road and that they will open by the end of March 1981,
3. that the gross margin will be at a similar level to that achieved by the Company in 1980,
4. that the bases and rates of indirect taxation will not change materially,
5. that trading results will not be affected by industrial disputes which prevent delivery of goods from the principal suppliers,
6. that there will be no major changes in the Government's economic policies, and
7. that there will be no material changes in the Group's accounting policies.

Letters relating to profit forecast
The following are copies of letters relating to the forecast of profit before taxation for the year ending 31st October 1981:

Letter from Earnshaw, Haes & Sons:

The Directors,
Sonic Sound Audio Holdings P.L.C. 14th January 1981

Gentlemen,

We have reviewed the forecast of profit before taxation of Sonic Sound Audio Holdings P.L.C. and subsidiaries for the year ending 31st October 1981, set out in the prospectus dated 14th January 1981.

We have discussed with you the bases and assumptions on which the forecast of profit before taxation was made. We have also considered the letter dated 14th January 1981, addressed to you from Arthur Andersen & Co. and Halpern and Woolf regarding the accounting policies and calculations adopted in arriving at the forecast of profit before taxation.

We consider that the forecast of profit before taxation (for which you are solely responsible) has been made with due care and attention.

Yours faithfully,
Earnshaw, Haes & Sons
Members of The Stock Exchange

Letter from the joint reporting accountants:

The Directors,
Sonic Sound Audio Holdings P.L.C. 14th January 1981

Gentlemen,

We have reviewed the accounting policies applied and the calculations made in preparing the forecast of profit before taxation of Sonic Sound Audio Holdings P.L.C. and subsidiaries ("the Group") (for which you, as directors, are solely responsible) for the year ending 31st October 1981, set out in the prospectus dated 14th January 1981. The principal assumptions made by you upon which the forecast of profit before taxation is based are set forth in the said prospectus. The forecast of profit before taxation includes results shown by unaudited management accounts for the period ended 3rd January 1981.

Our review indicated that the forecast of profit before taxation, so far as the accounting policies and calculations are concerned, has been compiled on the basis of the assumptions made by you referred to above and is presented on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully,
Arthur Andersen & Co. Halpern and Woolf
Chartered Accountants Chartered Accountants

Accountants' Report
The following is a copy of a report received from Arthur Andersen & Co., the joint reporting accountants, and Halpern and Woolf, the auditors and joint reporting accountants.

The Directors
Sonic Sound Audio Holdings P.L.C.

The Partners
Earnshaw, Haes & Sons 14th January 1981

Gentlemen,

We have audited the balance sheet of Sonic Sound Audio Holdings P.L.C. ("the Company") at 1st November 1980, and the related statements of profits and retained earnings and source and application of funds for the years ended 31st October 1977, 1978, 1979 and 1st November 1980 in accordance with approved Auditing Standards.

The Company was incorporated on 21st September 1976, under the name of Astor Hi-Fi Limited and commenced trading on 5th November 1976. The Company's name was changed to Sonic Sound Audio Holdings Limited on 8th January 1981 and to Sonic Sound Audio Holdings P.L.C. on 12th January 1981.

Halpern and Woolf have reported on each of the above four years. The financial information presented below is based on the audited accounts, after reflecting the change in the basis of accounting for deferred taxation which is explained further in Note 4.

In our opinion, the financial information, which has been prepared under the historical cost convention and is shown below, gives a true and fair view of the state of affairs of the Company at 1st November 1980, and of the profits and source and application of funds for each of the four years referred to above, on a consistent basis.

We have also reviewed the entries giving effect to the post balance sheet transactions described in Notes 10 and 11, and in our opinion these entries have been properly applied to the balance sheet of the Company at 1st November 1980, which has then been combined with the audited balance sheet of Sonic Sound Audio Limited at 1st November 1980, to arrive at the pro-forma Group balance sheet at 1st November 1980.

Accounting Policies
The significant accounting policies adopted in arriving at the financial information set out in this report are as follows:

a. Basis of preparation:
The financial information has been prepared under the historical cost convention. Until 31st October 1979, the Company prepared its accounts as at 31st October. Subsequently, the Company has prepared its accounts to the close of business on the Saturday nearest to 31st October.

b. Interest in subsidiary company:
At 1st November 1980, the Company had one dormant subsidiary which had never traded. No consolidated accounts have been prepared because, in the opinion of the directors, they would be of no real value to the members in view of the insignificant amounts involved. The interest is stated at cost in the Company's balance sheet.

c. Stock:
Stock is stated at the lower of cost, on a first-in, first-out basis, and net realisable value.

d. Deferred taxation:
Deferred taxation is provided to the extent that the directors believe that the related liabilities have a reasonable probability of materialising in the foreseeable future, to allow for the effect of items of income and expense being attributed for tax purposes to years different from those in which the credits or charges are recorded in the accounts. Deferred taxation is computed using the liability method whereby timing differences are tax effected at the rate of corporation tax at the balance sheet date.

e. Sales:
Sales represent invoiced value, excluding value added tax.

f. Licence income:
Licence income represents the gross amount receivable under the terms of the licences.

g. Fixed assets:
Fixed assets are stated at cost.
Depreciation is provided on a straight-line basis at annual rates based on the estimated economic lives of the assets as follows:

Leasehold property	—	over the residual term of the lease
Furniture, fixtures, fittings and equipment	—	10%
Motor vehicles	—	25%

Statements of Profits and Retained Earnings

	Note	Years ended 1st November 1980	31st October 1979	31st October 1978	31st October 1977
		£	£	£	£
Sales		2,601,136	2,123,962	1,080,210	623,467
Cost of sales		1,900,152	1,585,244	795,029	461,350
Gross trading profit		700,984	538,718	285,181	162,117
Licence income, gross		227,858	188,370	131,477	52,219
		928,842	727,088	416,658	214,336
Selling and other expenses	2	536,065	475,299	241,761	160,027
		392,777	251,789	174,897	54,309
Exceptional item	3	88,691	—	—	—
Profit before taxation		304,086	251,789	174,897	54,309
Taxation	4	—	—	—	—
Net profit		304,086	251,789	174,897	54,309
Retained earnings, brought forward		480,995	229,206	54,309	—
Retained earnings, carried forward		785,081	480,995	229,206	54,309
Earnings per share	5	5.07p	[illegible]	[illegible]	0.91p

هكذا من الأصل

Lloyd's Bill provokes debate in market

BY JOHN MOORE

CLAUSE 11 of Lloyd's Parliamentary Bill for improving self-regulation within the Lloyds' market has provoked a considerable debate in political circles as well as among the market's large private membership.

Clause 11 says that "neither the society nor any of its officers or employees shall be under any liability for negligence or other tort, breach of statutory duty, or on any other ground whatsoever to any member of the society, Lloyd's broker, underwriting agent or any director or partner of the Lloyd's broker or underwriting agent in such capacity or capacities as may be specified by the council in respect of anything done or omitted to be done in pursuance of Lloyd's Acts 1871 to 1981 or any bye-law or regulation made thereunder."

What this legal proximity means is that a new Lloyd's ruling council is to be protected by a comprehensive indemnity. It would give Lloyd's immunity from liability for some of its conduct.

This immunity applies only in respect of things done or ommited in pursuance of Lloyd's Acts of Parliament.

But it gives Lloyd's a unique instrument seldom enjoyed by any other body according to legal opinion.

Sir Henry Fisher, who prepared the report on which the Bill is based, said it would be contrary to the public interest and inconsistent with the patterns of control established by the Insurance Companies Act—the provisions of which largely exempt Lloyd's—if the Corporation of Lloyd's was to be inhibited in the task of self-regulation by fear of legal proceedings against it.

This fear of possible legal liability could produce a hesitant new Lloyd's ruling council, which is to be created under the new legislation. Without an indemnity the new council perhaps could not undertake functions designed for the protection of all members.

Some members of Lloyd's argue that the indemnity will prevent them taking any legal action against Lloyd's in the future and stand any chance of establishing liability.

If this indemnity had existed before, members of the Sasse syndicate would not have been able to recover their losses, they argue.

Lloyd's has said that if clause 11 did not exist then it would have to seek insurance cover. If Lloyd's is able to purchase large enough cover, the premium would be substantial.

The cost to each member of Lloyd's, who would have to bear the expense, would be considerable, is the official view.

It has been said that the indemnity does not protect the establishment against every eventuality and Lloyd's has indicated that genuine grievances of individual members would be rectified.

The underlying fears of the members who have questioned the inclusion of clause 11 in the bill is that the ruling bodies will be less accountable for their actions.

Too much protection for the stewards who supervise the market and organise their affairs could be as much a disadvantage as too little protection.

All members of Lloyd's are liable to the full extent of their wealth to meet insurance claims. That being so many members want to preserve their rights to go to law on issues which affect their affairs.

Lloyd's clearly does not want a repeat of the Sasse legal action which challenges its authority. Litigation against the institution on a regular basis would prevent it functioning efficiently.

It is an issue to which there is not likely to be easy answer. Lloyd's greatest problem is that it has to explain to its large membership that it has not put its new ruling body above and beyond the law.

Fens' fruit acres to be cut

FRUIT GROWERS in the fens of East Anglia have warned that the planned closure of the Smedley HP canning factory at Wisbech, Cambridgeshire, will mean a drastic reduction in the production of soft fruit.

The Wisbech Fruitgrowers' Association, which has 200 members in the area, said yesterday: "A cut in the acreage devoted to strawberries, plums and gooseberries is inevitable and could lead to a dependency on imports when the market picks up."

Week in Parliament

TODAY

Commons: Criminal Attempts Bill, second reading. Motions on Local Authority Grants (Termination) (Scotland) Order and on the Undertakings relating to Highlands and Islands Shipping Services.

Lords: Procedural motion on Committee stage of Wildlife and Countryside Bill. International Organisations Bill, third reading. Deep Sea Mining (Temporary Provisions) Bill, second reading. Energy Conservation Bill, (committee. Debate on Control of Pollution (Special Waste) Regulations 1980.

Select Committees: Education, Science and Arts. Subject: Private and public funding of the arts. Witnesses: Sir Arthur Drew, chairman of the Standing Conference on Museums and Galleries. Dr. David Wilson, director British Museum. Mr. Hugh Leggatt, secretary Heritage in Danger. Sir Michael Levey, director of the National Gallery. Mr. Peter Rees, Treasury Minister of State. (Room 6, 4 pm.)

TOMORROW

Commons: European Assembly Elections Bill, remaining stages. Water Bill, second reading.

Lords: Judgments Enforcement (Northern Ireland) Order 1981. Judgments Enforcement (Northern Ireland Consequential Amendment) Orders 1981. Elections (Welsh Forms) (No. 2) Regulations 1980. Contempt of Court Bill, committee stage.

Select Committee: Parliamentary Commissioner for Administration. Subject: Non-Departmental Public Bodies. Witness: Sir Lee Pliatzky. (Room 5, 5 pm.)

WEDNESDAY

Commons: Debate on Opposition motion on energy policy. Motions on the Rate Support Grant (Scotland) Order and on the Housing Support Grant (Scotland) Orders.

Lords: Debate on transport policy, with particular reference to long term investment. Criminal Justice (Amendment) Bill, Committee stage.

Select committees: Education, Science and Arts. Subject: The secondary school curriculum and examinations. Witnesses: Secondary Heads Association. (Room 6, 10.30 am). Welsh Affairs. Subject: Broadcasting in the Welsh Language and the implications for Welsh and non-Welsh speaking viewers and listeners. Witnesses: NUJ; National Association of Theatrical, Television Kine Employees; Association of Cinematagraph Television and Allied Technicians (Room 8, 10.30 am and 4 pm). Special Services. Subject: Medical Education (Room 21, 4.30 pm).

THURSDAY

Commons: Debate on Welsh Affairs. Motions on Northern Ireland Consolidation Orders on Firearms, Clean Air and Road Traffic and on Orders on Road Traffic (Consequential Amendments), Leasehold (Enlargement and Extension), Housing and Building Societies.

Lords: Town and Country Planning (Minerals) Bill. Debate on the report of the European Communities Committee on the European Social Fund.

Select committees: Agriculture. Subject: Animal welfare in poultry, pig and veal calf production. Witnesses: NFU (England, Wales, Scotland and Ulster) (Room 16, 11 am.) Home Affairs: Race Relations and Immigration sub-committee. Subject: Racial Disadvantage. Witnesses: Mr. T. Jupp, National Industrial Language Training Centre. (Room 15, 4.30 pm.)

Pattisson rejoins Hanson Trust

Mr. John H. Pattisson is rejoining the Board of HANSON TRUST at the beginning of April. He was a non-executive director during the first decade of the company's growth under Sir James Hanson's chairmanship but left the Board in 1974 because of other commitments. On his reappointment as a director, he will join Hanson Trust as a full-time executive, with responsibility for strategic financial planning.

For over 10 years Mr. Pattisson was managing director of Dawnay Day, the merchant banking group in which the Prudential Assurance Company—itself an early investor in Hanson Trust—had a 20 per cent shareholding. On the take-over of Dawnay Day last year by Hume Investment Trust (a company jointly owned by RIT and the U.S. Reliance Group) he was appointed to the Board of Hume and has been a director of other RIT subsidiaries. He will be relinquishing these appointments in February.

★

Mr. John Govett has been appointed to the board of FUNDINVEST and **Mr. Gordon H. Popham** joins the board of TRIPLEVEST. Both companies are jointly managed by Drayton Montagu Portfolio Management and J. Henry Schroder Wagg and Co. and the appointments follow the retirement from the boards of Sir Ashley Ponsonby. Mr. Govett and Mr. Popham are directors of J. Henry Schroder Wagg.

★

Mr. Michael Alexandra has been appointed marketing manager and a director of the Bridon subsidiary, BRITISH ROPES.

★

Mr. John Fisher has been appointed managing director of STAG FURNITURE INTERNATIONAL. Chairman of the new company is Mr. Patrick Radford (chairman and joint managing director of Stag Furniture Holdings). Other directors are Mr. John Radford (joint managing director of Stag Furniture Holdings), Mr. Richard Belton (managing director of Stag Cabinet Company) and Mr. Tony Brown (managing director of Meredew Furniture).

★

COMPAIR CONSTRUCTION AND MINING has appointed **Mr. Michael J. H. Harding** sales and marketing director and **Mr. Michael N. Sanderson**, marketing manager.

★

Mr. David R. Stevens, managing director of DRAYTON MONTAGU PORTFOLIO MANAGEMENT, has been appointed chairman and managing director. **Mr. J. Staffan Gadd**, chief executive of Samuel Montagu and Co., has been appointed a director.

★

The industry secretary has appointed **Mr. Francis D. Perryman** as a member of the POST OFFICE BOARD for five years from February 1.

★

Mr. D. C. Hochstenbach, managing director of Gulf Oil (Nederland), has been appointed to the new post of director, European operations rationalisation in GULF OIL INTERNATIONAL'S European headquarters in London.

★

Mr. Douglas (H. D.) Wilson has been appointed to the Board of BARTON CONDUITS, part of the Barton Group.

★

Mr. George Henshilwood has been appointed managing director of HARLEM WILCOMATIC the garage equipment division of the Wilcomatic Group.

★

Mr. Herbert Walden, a director and general manager, Heart of England Building Society, has been nominated as deputy chairman, council of the BUILDING SOCIETIES' ASSOCIATION 1981-82.

★

Mr. John J. Routledge has been appointed executive director of the NATIONAL ELECTRICAL DISTRIBUTORS ALLIANCE. **Mr. Peter B. Etheridge** remains as a director and company secretary.

★

Mr. John C. Botts, executive director of Citicorp International bank, has been appointed a director of NIMSLO EUROPEAN HOLDINGS. Mr. Botts is also a director of Nimslo Limited and Nimslo Corporation.

★

Mr. Garth Schofield has been appointed to the board of KNIGHT, ELLIS AND CO.

★

Mr. C. W. Freedman and **Mr. W. T. Sanders** have resigned from the board of JENKS AND CATTELL. **Mr. M. E. J. Clarke** has been appointed a non-executive director.

★

Mr. John N. Philpotts is to join the board of ELLIS AND EVERARD (CHEMICALS) of which he is currently south east area manager. From May 1 he will take up the newly-created post of operations director, reporting directly to managing director, Mr. David Walsh, at Bradford, and will be responsible for day-to-day trading activities in the distribution and supply of chemicals through 18 UK regional depots.

★

Mr. W. J. Jenrick has been appointed managing director of CANNON INDUSTRIES. He has been a director since 1974 with responsibility for finance and personnel. Cannon is a GEC company.

Banca del Gottardo increases dividend

By John Wicks in Zurich

AN INCREASED dividend and a rights issue are to be recommended to shareholders of Banca del Gottardo, Lugano, at the bank's annual general meeting on February 27.

After a rise in net profits by 11 per cent to SwFr 23m ($13m) for 1980, the board intends to raise the dividend from 10 to 12 per cent and pay an increased sum of SwFr 13m (SwFr 12.5m in 1979) to reserves.

At the same time, Gottardo plans to raise SwFr 16.5m ($9.32m) by a rights issue. Share capital will be increased, subject to approval by the AGM, from SwFr 65m to SwFr 71.5m ($40.39m) and participation-certificate capital from SwFr 17.5m to SwFr 19.25m by a one-for-10 issue of new stock at a unit price of SwFr 200 plus SwFr 8 stamp duty and expenses.

After the capital increase, total capital funds of the bank will amount to SwFr 278.75m, of which SwFr 188m will be accounted for by reserves.

The balance-sheet total of Banca del Gottardo rose by a further 29 per cent to SwFr 3.14bn in 1980.

● Bank Julius Baer and Co. of Zurich, increased net profits to SwFr 12.6m ($6.58m) in 1980 from SwFr 10.4m in the previous year, and is to pay an unchanged dividend of 10 per cent to Baer Holding AG, its parent company.

The total assets of Julius Baer rose over the year from SwFr 746m to SwFr 862m, while those of the entire Baer Holding group — including foreign banking subsidiaries — increased from SwFr 1.3bn to SwFr 1.5bn.

Life insurance sector lifts Transamerica earnings

BY OUR FINANCIAL STAFF

TRANSAMERICA Corporation, the U.S. diversified service sector company with major insurance interests, reported a 5.7 per cent rise in net profits for the fourth quarter to $58.4m or 89 cents a share. Revenues were virtually stagnant at $1.09bn against $1.08bn a year earlier.

Profits for the year totalled $244.9m ($3.75) against $240.2m ($3.66). Revenues were $4.38bn against $4.04bn.

The company said that the rise in annual earnings mainly reflected higher income from its life insurance operation, which showed gains in all major lines. This area accounts for about 32 per cent of operating profits.

Earnings from property and casualty insurance fell in 1980 because of storm losses and increased price competition. Earnings from title insurance were down sharply, reflecting the severe fall in real estate transactions. Together, these insurance areas account for about 24 per cent of profits.

Profits of the company's United Artists film production and distribution division, accounting for about 8 per cent of the total, fell to $20m from $26.6m, mainly because of a fourth quarter loss reflecting a reserve against its investment in the film Heaven's Gate.

Transamerica declined to disclose the size of the provision. The film, which reportedly cost $35m to make, was withdrawn a few days after its release in November because of adverse criticism. United Artists said it plans to release the film again in the spring after it is re-edited.

Transamerica Airlines had record net profits of $24m, up from $16.5m in 1979. Mr. James Harvey, parent company president, attributed this to the airline's "flexibility," which allows it to carry freight and military and civilian passengers. It is the largest charter air transporter in the world.

The group's Budget Rent a Car division had lower profits in 1980 because of high interest rates and a weak car sales market.

Mr. Harvey said that the group's net profits for 1981 "will be up modestly" with the second half stronger than the first.

Belgian arms group falls short of turnover target

BY OUR FINANCIAL STAFF

FABRIQUE NATIONALE de Herstal, the Belgian small arms manufacturer, said that estimated 1980 net turnover was BFr 16.4bn ($510m) against BFr 14.32bn in 1979.

The company hopes to raise the figure to about BFr 20bn this year with increased sales of sports equipment and development of its Minimi machine gun, areas where it has high hopes of U.S. sales.

The company said that reluctance by the Belgian Government to grant the licences it requires for all exports swiftly had contributed to its failure to reach a BFr 17bn turnover target last year.

The slow action of the Government, influenced by a climate of hostility in Belgium to arms sales, had resulted in the loss of valuable contracts in the past year, the company said.

"Where we are prevented from selling, our competitors move in quickly. We saw this in South Africa, and we have seen it in the Middle East," a company official said.

Government officials said that licences were generally granted except to countries engaged in armed conflicts, those Belgium does not recognise diplomatically and those where sales are forbidden under a United Nations embargo.

Judgment on appeal by Asbestos soon

By Robert Gibbens in Montreal

THE QUEBEC Court of Appeal is expected to hand down judgment in a few weeks on an appeal by Asbestos Corporation against a lower court decision that the Provincial Government's law to expropriate the company's Quebec assets is constitutional. Hearings of the key appeal case have been completed and five judges have to digest 10 large volumes of evidence and documents.

The Provincial Government has been trying to get control of Asbestos Corporation for three years, after a price could not be agreed with the parent company, General Dynamics Corporation of the U.S.

PENDING DIVIDENDS

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming board meetings (indicated thus*) have been officially published. It should be emphasised that the dividends to be declared will not necessarily be at the amounts or rates per cent shown in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*Alexanders Disc.	Jan. 19	Final 11.501	*Lloyds Bank	Feb. 20	Final 8
*Assoc. Dairies	Jan. 28	Int. 2.0	Lonrho	Feb. 4	Final 5.68
*Bank Leumi (UK)	Jan. 28	Final 5.768	*NatWest Bank	Feb. 24	Final 10.25
BAT Inds.	Jan. 30	Int. 6.5	*Racal Electronics	Jan. 28	Int. 7.05
*Brown (J.)	Jan. 30	Int. 1.75	*Rank Org.	Jan. 22	Final 6.0
Dalgety	Feb. 14	Int. 11.0	Securicor	Feb. 13	Final 1.02
*Dewey	Feb. 16	Int. 2	Tate and Lyle	Jan. 22	Final 4.0
*Gestetner	Jan. 22	Final 2.75	*Trusthouse Forte	Jan. 21	Final 6
Guinness Peat	Feb. 12	Int. 2.75	*Union Discount	Jan. 21	Final 13.625
*ICI	Feb. 26	Sec. int. 11			
*Imperial Gp.	Feb. 12	Final 4.5			
*Hambro Tst.	Jan. 27	Int. 1			
*Inchcape	Jan. 27	Int. 7.15			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BASE LENDING RATES

A.B.N. Bank	14 %	■ Hambros Bank	14 %
Allied Irish Bank	14 %	■ Hill. Samuel	§14 %
American Express Bk.	14 %	C. Hoare & Co.	†14 %
Amro Bank	14 %	*Hongkong & Shanghai*	14 %
Henry Ansbacher	14 %	Keyser Ullmann	14 %
A P Bank Ltd.	14 %	Knowsley & Co. Ltd.	16 %
■ Arbuthnot Latham	14 %	Langris Trust Ltd.	14 %
Associates Cap. Corp.	14 %	Lloyds Bank	14 %
Banco de Bilbao	14 %	Edward Manson & Co.	15 %
BCCI	14 %	Midland Bank	14 %
Bank of Cyprus	14 %	■ Samuel Montagu	14 %
Bank of N.S.W.	14 %	■ Morgan Grenfell	14 %
Banque Belge Ltd.	14 %	National Westminster	14 %
Banque du Rhone et de la Tamise S.A.	14½ %	Norwich General Trust	14 %
Barclays Bank	14 %	P. S. Refson & Co.	14 %
Beneficial Trust Ltd.	15 %	Rossminster	14 %
Bremar Holdings Ltd.	15 %	Ryl. Bk. Canada (Ldn.)	14 %
Brit. Bank of Mid. East	14 %	*Slavenburg's Bank*	14 %
■ Brown Shipley	14 %	E. S. Schwab	14 %
Canada Perm't Trust	15 %	Standard Chartered	14 %
Cayzer Ltd.	14 %	*Trade Dev. Bank*	14 %
Cedar Holdings	14 %	Trustee Savings Bank	14 %
■ *Charterhouse Japhet*	14 %	Twentieth Century Bk.	14 %
Choulartons	14 %	United Bank of Kuwait	14 %
C. E. Coates	14 %	Whiteaway Laidlaw	14½ %
Consolidated Credits	14 %	Williams & Glyn's	14 %
Co-operative Bank	*14 %	Wintrust Secs. Ltd.	14 %
Corinthian Secs.	14 %	Yorkshire Bank	14 %
The Cyprus Popular Bk.	14 %		
Duncan Lawrie	14 %		
Eagil Trust	14 %		
E. T. Trust Limited	14 %		
First Nat. Fin. Corp.	16½ %		
First Nat. Secs. Ltd.	16 %		
Robert Fraser	14 %		
Antony Gibbs	14 %		
Greyhound Guaranty	14 %		
Grindlays Bank	‡14 %		
□ Guinness Mahon	¶14 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 11½%. 1-month 11¾%. *Short term £4,000/12 months 13.35%.*
† 7-day deposits on sums of £10,000 *and under 11½%, up to £50,000* 12%, and over £50,000 12½%.
‡ Call deposits £1,000 and over 11½%.
¶ 7-day deposits 12%.
§ Demand deposits 12%.

LOCAL AUTHORITY BOND TABLE

Authority (*telephone number in parentheses*)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Burnley (0282 25011)	13¾	½-year	500	2
Knowsley (051-548 6555)	13½	½-year	1,000	5-7
Redbridge (01-478 3020)	13¼	½-year	200	5-6
Sefton M.B.C. (051 922 4040)	13½	½-year	2,000	2-5

Public Works Loan Board rates

Effective from January 17

Years	Quota loans repaid by EIP†	Quota A‡	Quota at maturity§	Non-quota loans A* repaid by EIP†	Non-quota A‡	Non-quota at maturity§
Up to 5	13⅞	13⅞	13⅞	14⅛	14⅛	14⅛
Over 5, up to 10	13⅞	14	14¼	14⅛	14½	14¾
Over 10, up to 15	14¼	14⅜	14¼	14¾	14¾	14¾
Over 15, up to 25	14½	14½	14½	14¾	14¾	14¾
Over 25	14¼	14½	14½	14¾	14¾	14¾

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest.) § With half-yearly payment of interest only.

CORAL INDEX: Close 451-456 (+6)

CURRENCIES, MONEY and GOLD

Dollar interest continues

BY COLIN MILLHAM

When Mr. Ronald Reagan assumes the U.S. Presidency tomorrow, he will inherit, among other things, a comparatively strong dollar. Dollar movements have been harder than usual to follow just recently, with a number of factors trying to pull the U.S. unit in different directions. With U.S. money supply figures tending to show an overall downward shift until this week, there have been quite valid grounds for assuming some easing both in interest rates and Federal credit policies. Having see-sawed between 21½ per cent and 19½ per cent, prime rates now seem to have settled at 20 per cent, mainly as a reflection of the high cost of Federal funds at the moment.

This has kept Euro-currency rates high and helped maintain interest in the dollar. The effect of a sharp decline in money supply figures announced on January 9 was swiftly countered, early last week, by comments made by Mr. Paul Volcker, that the tight hold on credit was unlikely to be relaxed substantially and that interest rates would not be allowed to fall too far or too quickly.

The fall in rates was an obvious reference to the spring of last year, when prime rates fell from 20 per cent to around 11 per cent in a 12 week period. Since his statement the dollar has gone from strength to strength. However, with the U.S. economy showing signs of slowing down and with many people quite long on dollars, there may be scope for some downward adjustment in the value of the dollar over the next few weeks.

Another factor affecting the market, at the moment on a more psychological than physical basis is the position of the hostages in Iran. The whole question of when and how the hostages may be released has dragged on for some time now, and appears to have become less and less of a market factor. However, some step towards more normal relations between Iran and the U.S. may well prove beneficial for the dollar, with the actual release of the hostages likely to be a relative anti-climax. In the short-term, however, there is likely to be some sharp fluctuation in rates as any possible reallocation of the seized Iranian funds is effected.

THE POUND SPOT AND FORWARD

Jan. 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.3920-2.4030	2.3925-2.3935	1.35-1.45c dis	-7.02	2.90-3.00dis	-4.93
Canada	2.8500-2.8610	2.8505-2.8515	0.95-1.05c dis	-4.21	2.15-2.30dis	-3.12
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	14.74-14.91	14.74-14.76	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc [illegible]. Six-month forward dollar [illegible], 12-month [illegible].

THE DOLLAR SPOT AND FORWARD

Jan. 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.3920-2.4030	2.3925-2.3935	1.35-1.45c dis	-7.02	2.90-3.00dis	-4.93
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

GOLD

	Jan. 16		Jan. 15	
Gold Bullion (fine ounce)				
Close	$560-563	(£233¾-234½)	$572-575	(£238¼-239½)
Opening	$564-567	(£235½-236¾)	$565-568	(£235½-236¾)
Morning fixing	$562.75	(£234.969)	$566.75	(£236.018)
Afternoon fixing	$560.75	(£233.958)	$571.50	(£237.650)
Gold Coins				
Krugerrand	$581-583	[illegible]	$591-593	[illegible]
1/2 Krugerrand	[illegible]	[illegible]	[illegible]	[illegible]
1/4 Krugerrand	[illegible]	[illegible]	[illegible]	[illegible]
1/10 Krugerrand	[illegible]	[illegible]	[illegible]	[illegible]
Mapleleaf	[illegible]	[illegible]	[illegible]	[illegible]
New Sovereigns	[illegible]	[illegible]	[illegible]	[illegible]
King Sovereigns	[illegible]	[illegible]	[illegible]	[illegible]
Victoria Sovs	[illegible]	[illegible]	[illegible]	[illegible]
French 20s	[illegible]	[illegible]	[illegible]	[illegible]
50 pesos Mexico	[illegible]	[illegible]	[illegible]	[illegible]
100 Cor. Austria	[illegible]	[illegible]	[illegible]	[illegible]
$20 Eagles	[illegible]	[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Jan. 16	£	$		£ Note Rates
Argentina Peso	[illegible]	[illegible]	Austria	[illegible]
Australia Dollar	[illegible]	[illegible]	Belgium	[illegible]
Brazil Cruzeiro	[illegible]	[illegible]	Denmark	[illegible]
Finland Markka	[illegible]	[illegible]	France	[illegible]
Greek Drachma	[illegible]	[illegible]	Germany	[illegible]
Hong Kong Dollar	[illegible]	[illegible]	Italy	[illegible]
Iran Rial	[illegible]	[illegible]	Japan	[illegible]
Kuwait Dinar(KD)	[illegible]	[illegible]	Netherlands	[illegible]
Luxembourg Frc.	[illegible]	[illegible]	Norway	[illegible]
Malaysia Dollar	[illegible]	[illegible]	Portugal	[illegible]
New Zealand Dlr.	[illegible]	[illegible]	Spain	[illegible]
Saudi Arab. Riyal	[illegible]	[illegible]	Sweden	[illegible]
Singapore Dollar	[illegible]	[illegible]	Switzerland	[illegible]
Sth. African Rand	[illegible]	[illegible]	United States	[illegible]
U.A.E. Dirham	[illegible]	[illegible]	Yugoslavia	[illegible]

Rate given for Argentina is free rate. * Selling rate.

FT LONDON INTERBANK FIXING (11.00 a.m. JANUARY 16)

3 months U.S. dollars		6 months U.S. dollars	
bid 18 15/16	offer 18 15/16	bid 17 3/8	offer 17 1/2

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

EURO-CURRENCY INTEREST RATES (Market closing Rates)

Jan. 16	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Belgian Franc Convertible	Japanese Yen
Short term	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days' notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Asian $ (closing rates in Singapore): [illegible]. Long-term Eurodollar [illegible]. Short-term rates are call for sterling, U.S. dollars, Canadian dollars and Japanese yen; others two-days notice. The following nominal rates were quoted for London dollar certificates of deposit: [illegible].

LONDON MONEY RATES

Jan. 16 1981	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Discount Company Deposits	Market deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days or	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Local authority and finance houses seven days' notice, others seven days' fixed. Long-term local authority mortgage rates nominally three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent. ♦ Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills [illegible] per cent; four-month trade bills [illegible] per cent. Approximate selling rate for one-month Treasury bills [illegible] per cent; two-months [illegible] per cent; three-months [illegible] per cent. Approximate selling rate for one-month bank bills [illegible] per cent; two-months [illegible] per cent; three-months [illegible] per cent; one-month trade bills [illegible] per cent; two-months [illegible] per cent; three-months [illegible] per cent. Finance Houses Base Rates (published by the Finance Houses Association) [illegible] per cent from January 1, 1981. Clearing Bank Deposit Rates for sums at seven days' notice [illegible] per cent. Clearing Bank Rates for lending 14 per cent. Treasury Bills: Average tender rates of discount 12.8457 per cent.

CURRENCY RATES

Jan. 16	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.527182	0.532660
U.S. $	13	1.26497	1.27863
Canadian $	[illegible]	[illegible]	[illegible]
Austria Sch.	[illegible]	[illegible]	[illegible]
Belgian F.	[illegible]	[illegible]	[illegible]
Danish K.	[illegible]	[illegible]	[illegible]
D'mark	[illegible]	[illegible]	[illegible]
Guilder	[illegible]	[illegible]	[illegible]
French Fr.	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]
Norwgn. Kr.	[illegible]	[illegible]	[illegible]
Spanish Pta.	[illegible]	[illegible]	[illegible]
Swedish Kr.	[illegible]	[illegible]	[illegible]
Swiss Fr.	[illegible]	[illegible]	[illegible]
Greek Dr'ch.	[illegible]	[illegible]	60.7731

RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid Up	Latest Renunc. Date	1980/81 High	Low	Stock	Closing Price p	+ or −	Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Amer. Comm. Inds. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Grampion [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Independent Inv. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Midland Marts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	New Tokyo Inv Tst 50p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Richards Services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Westpool Inv. Defd	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid Up	Latest Renunc. Date	1980/81 High	Low	Stock	Closing Price £	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Allied London [illegible] Cnv. Uns. Ln. 1999	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Chester Waterworks [illegible] Red. Pref. 1985	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] Notes [illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Crowell [illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	East Anglian Water [illegible] Red. Prf.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	East Worcester [illegible] Red. Pref. 1985	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Essex Waterworks [illegible] Red. Prf. 1986	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Lon. Merchant Secs. [illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Mid-Sussex W'w'ks [illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Paterson (R.) [illegible] Cum. Cnv. Prf.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Standard Industrial [illegible] Pref.	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1980/81 High	Low	Stock	Closing Price p	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Bramar Trust	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Brotherhood P.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	E. Midland Allied Press A	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Gowells	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Hampton Gold Mining	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Johnson, Matthey	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	KCA Intnl.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	L. Industrial	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	North Kalgurli Mines	[illegible]	[illegible]
85	Nil	21/1	13/2	½pm	½pm Prestwich Parker	½pm	......
87	F.P.	15/12	16/1	125	106 Pritchard Services	116	......
320	Nil	—	—	31pm	10pm Royal Insurance	15pm	+4
78	F.P.	15/12	22/1	96	91 Scapa	95	......
60	F.P.	9/1	18/2	76	67 Security Centres	75	......
24½	Nil	16/1	25/1	125pm	82pm *TNT*	82pm	......
145	F.P.	19/1	16/2	197	174 Warren Plants	197	+2

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimate. *g* Assumed dividend and yield. *u* Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimate for 1979. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. pt Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ✱ Unlisted Securities Market. ‡‡ London Listing. † Resulting from debt settlement scheme. ‡‡ Units comprising 125 A Ord. & 6 12½% Cum. Pref.

FT Share

The following securities have been added to the Share Information Service:—

Energy Finance and General Trust Convertible Unsec. Loan (Section: Trusts, Finance, Land).

New Cavendish Estates (Property).

ASSOCIATE DEAL

De Zoete and Bevan purchased, on behalf of Hunting and Son, a subsidiary of Hunting Gibson, 20,500 Stag Line at 353p as a result Hunting holds 73,000 (5.93 per cent) Stag shares.

SPAIN

1981 High	Low	January 16	Price %
264	203	Banco Bilbao	258
300	217	Banco Central	296
244	206	Banco Exterior	244
250	200	Banco Hispano	247
137	120	Banco Ind. Cat.	121
175	141	Banco Madrid	141
301	237	Banco Santander	301
190	140	Banco Urquijo	150
277	208	Banco Vizcaya	276
220	200	Banco Zaragoza	212
108	75	Dragados	90
62	46	Espanola Zinc	46
59.7	53.2	Fecsa	57.7
40	22	Gal. Preciados	26
71	58.7	Hidrola	65.7
63	57.5	Iberduero	58
120	77	Petroleos	86
80	59	Petroliber	75
115	83	Sogefisa	102
63.5	57.5	*Telefonica*	63.5
67	58.2	Union Elect.	62.2

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

Frankfurt Trust Investment—GmbH
Neue Mainzer Strasse 74-76, D-6000 Frankfurt
FT-Interzins (DM)37.52 41.01 +0.02 —
[illegible]

Phoenix International
PO Box 77, St. Peter Port, Guern. 0481 26741

Inter-Dollar Fund	US$3.07	3.31	—	—
Far East Fund	US$2.44	2.63	—	—
Intl. Currency Fund	US$1.70	1.84	—	—
Dollar Fxd. Int. Fund	US$2.26	2.44	—	—
Ster. Exempt Gilt Fd.	£1.37	1.49	—	—

Providence Capitol Life Ass. (C.I.)
PO Box 121, St Peter Port, Guernsey 0481 26726/9
[illegible]

Lloyds Bank International, Geneva
P.O. Box 438, 1211 Geneve 11 (Switzerland)

Lloyds Intl. Growth	SF639.00	681.00	—	0.50
Lloyds Int. Income	SF278.00	289.00	—	6.20

M & G Group
Three Quays, Tower Hill EC3R 6BQ. 01-626 4588

Atlantic Jan. 13	US$7.24	7.71	—	—
Aust. Ex. Jan. 7	10.58	11.14	—	—
Gold Ex. Inc. Jan. 7	US$49.58	52.19	—	9.14
Gold Ex. Acc.	US$62.47	65.76	—	9.14
Island	149.7	159.3	−0.1	4.14
(Accum Units)	231.0	245.8	−0.1	4.14

Management International Ltd.
Bk. of Bermuda Bldg., Bermuda. 809-295-4000

Bda. Intl. Bd. Fd. Cap.	US$11.73		—	—
Bda. Intl. Bd. Fd. Inc.	US$10.84		—	12.00

Prices Jan. 12. Next dealing Jan. 16.

Midland Bank Tst. Corp. (Jersey) Ltd.
28-34, Hill St., St. Helier, Jersey. 0534 36281
Midland Drayton Gilt. 93.6 96.1 −0.9 12.75

Samuel Montagu Ldn. Agents
114, Old Broad St., EC2. 01-588 6464

Apollo Fd. Jan. 13	SF68.25	75.17	—	2.35
Japfest Jan. 15	HK$25.84	27.96	+1.55	0.69
117 Group Dec. 31	US$16.06	17.27	—	1.94
117 Jersey Dec. 24	£7.93	8.57	—	1.47
17 J'sey. O's Dec. 17	£5.64	5.94	—	3.67
117 Stg. Res. Jan. 13	£10.11	10.13	—	—

Murray, Johnstone (Inv. Adviser)
163, Hope St., Glasgow, C2. 041-221 5521

Hope St. Jan. 15	US$46.97	+0.68	—
Murray Fund. Jan. 15	US$23.05	−1.27	—
Pacific Fd. Dec. 31	US$5.52		—

Nat. Westminster Jersey Fd. Mgrs. Ltd.
45 La Motte St., St. Helier, Jersey 0534 36281

High Income Fund	45.6	47.8	—	12.77
Equity Fund	57.7	60.8	+1.0	3.48
International Bond*	45.6	47.8	—	10.85

*Sub. day every Thurs.

Negit S.A.
10a Boulevard Royal, Luxembourg
NAV Jan. 9 US$11.73 — — —

N.E.L. International Ltd.
P.O. Box 119, St. Peter Port, Guernsey, C.I.

Sterling Deposit	51.6	54.3	—
Sterling Fixed Interest	50.9	53.5	—
Sterling Managed	50.2	54.5	—
Intl. Fixed Interest	49.3	52.2	—
Intnl. Managed	50.3	54.6	—

Pacific Basin Fund
10a Boulevard Royal, Luxembourg.
NAV US$22.08
Inv. Adv.: M. & G. Inv. Mngt. Ltd., London.

[The remaining Unit Trust Service listings in the two right-hand columns (including Gartmore, Assicurazioni Generali, Guinness Mahon, Hambro, Henderson, Hill Samuel, Jardine Fleming, Keyser Ullmann, King & Shaxson, Kleinwort Benson, Lloyds Bank (C.I.), Schroder, Save & Prosper, Rothschild, Royal Trust, Sentry, S. G. Warburg, TSB, Tyndall, Unilife, Wardley, World Wide Growth, Wren and others, with notes) are illegible at this scan resolution.] [illegible]

ممكنا من الأصل

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)
72-80, Gatehouse Rd., Aylesbury 0296 5941

Abbey Amer. Gth. Tst.	57.3	61.6xd	+0.8	2.35
Abbey Capital	42.3	45.7	+0.1	5.36
Abbey General	51.6	55.8xd	+0.4	5.90
Abbey Gilt & F.I. Tst.	103.5	108.9xd	−0.3	12.03
Abbey Income	31.5	34.0xd	+0.1	10.52
Abbey W'Wide Bd Tst.	90.7	96.0	−0.4	6.94
Abbey Inv. Tst. Fd.	47.3	51.1	−0.1	4.97
Equitas Prog. Tst.	74.7	80.8	+0.5	5.06

Allen Harvey & Ross Unit Tst. Mngrs.
45, Cornhill, London EC3V 3PB. 01-623 6314.

AHR Gilt Trust	86.2	90.7	−0.2	13.23

Allied Hambro Ltd. (a) (g)
Hambro Hse., Hutton, Brentwood, Essex.
01-588 2851 or Brentwood (0277) 211459

Balanced Funds				
Allied 1st	83.0	88.8	+0.3	6.50
Brit. Inds. Fund	71.3	76.3	+0.4	7.00
Growth & Income	46.7	50.0xd	+0.2	5.40
Elect. & Ind. Dev.	40.9	43.8	.....	5.71
Allied Capital	89.5	95.8	+0.6	4.59
Hambro Fund	122.9	131.5	+0.5	6.58
Hambro Acc. Fund	169.3	181.2	+0.8	5.02
Income Funds				
High Yield Fd.	60.1	64.3	−0.2	9.72
High Income	73.4	78.5	+0.2	8.09
A. H. Eq. Inc.	41.5	44.4xd	+0.1	8.24
Govt. Secs.	24.8	25.5	−0.1	12.27
International Funds				

Craigmount Unit Tst. Mgrs. Ltd.
Bucklersbury, London EC4N 8BD. 01-248 4984

High Income	32.8	35.9xd	−0.2	12.53
North American	58.7	63.5	+0.3	2.71
Canadian Exempt*	63.7	67.4	.....	3.47
Canadian Trust	64.2	69.4	−0.3	2.57
Mid Mount High Inc.*	46.2	48.9	.....	9.87
Recovery	55.3	60.4	+0.2	7.14
Gilt Trust	42.1	44.1	−0.1	13.12

*Weekly dealing day Wednesday.

Crescent Unit Tst. Mngrs. Ltd. (a)(g)
4 Melville Cres., Edinburgh 3 031-226 4931

Cres. Amer. Fd.	38.8	41.8	+0.3	0.90
Cres. Internat'l.	73.7	79.5	+0.4	1.81
Cres. High Dist.	38.9	42.0	−0.1	11.61
Cres. Reserves	47.1	50.8	+0.2	5.66
Cres. Tokyo	29.9	32.2	+0.4	1.16

Darlington Unit Trust Mngt. Ltd.
Bridge Chambers, Barnstaple, Devon 0271 76324

Total Perf. Unit Tst.	24.0	25.5	.....	9.97

Discretionary Unit Fund Managers
36/38 New Broad St, EC2M 1NU. 01-638 4485

Disc. Inc. Jan. 9	215.6	230.0	.....	5.76

E. F. Winchester Fund Mngt. Ltd.
44, Bloomsbury Square, WC1A 2RA 01-623 8893

Great Winchester	16.8	18.6xd	.....	9.05
Gt. Winchester O'seas	25.1	27.9xd	.....	4.01

Emson & Dudley Tst. Mngmnt. Ltd.
20b Albemarle St., W1. 01-493 3211

Emson Dudley Tst.	85.6	92.1	.....	6.00

Equity & Law Un. Tr. M.♥ (a)(b)(c)
Amersham Rd., High Wycombe. 0494 33377

Equity & Law	82.9	87.2	+0.4	4.98

Fidelity International Management Ltd.
62-63 Queen St. London EC4 1AD 01-248 4991

M & G Group (y)(c)(z)
Three Quays, Tower Hill, EC3R 6BQ. 01-626 4588
See also Stock Exchange Dealings

American	59.6	64.1	+0.1	2.15
(Accum. Units)	63.3	68.0	+0.1	2.15
American Recovery	62.9	67.3	+0.1	1.79
(Accum. Units)	64.7	69.2	+0.1	1.79
Australasian	120.9	129.4	−0.4	0.52
(Accum. Units)	126.3	135.1	−0.4	0.52
Commodity	133.9	144.6	+0.9	3.37
(Accum. Units)	155.6	168.0	+1.0	3.37
Compound Growth	169.9	181.8	+0.2	3.43
Conversion Growth	114.9	122.9	−0.2	3.43
Conversion Inc.	67.9	72.6	+0.1	11.43
Dividend	116.3	125.6	−0.2	10.14
(Accum. Units)	258.7	279.4	−0.2	10.14
European	59.3	63.4xd	+0.3	4.15
(Accum. Units)	65.0	69.5	+0.4	4.15
Extra Yield	77.3	82.7	.....	11.28
(Accum. Units)	121.1	129.6	+0.1	11.28
Far Eastern	[illegible]	[illegible]	[illegible]	[illegible]

Scottish Equitable Fnd. Mgrs. Ltd.♥
28 St. Andrews Sq. Edinburgh 031-556 9101

Income Units	59.0	62.8	.....	5.87
Accum. Units	75.2	80.0	.....	5.87

Dealing day Wednesday.
For Sebag see Carr, Sebag Unit Trust Managers.

Security Selection Ltd.
Regis Hse., King William St., EC4. 01-623 4951.

Unvl Gth Tst Acc	35.5	37.8	.....	8.03
Unvl Gth Tst Inc	26.4	28.1	.....	8.03

Stewart Unit Tst. Managers Ltd.(a)
45, Charlotte Sq., Edinburgh. 031-226 3271

†Stewart American Fund				
Standard Units	78.4	83.4	.....	1.81
Accum. Units	85.3	90.9	.....	—
Withdrawal Units	55.9	59.5	.....	—
*Stewart British Capital Fund				
Standard	177.0	188.9	.....	6.70

Charterhouse Magna Gp.♥
Stephenson Hse., Brunel Centre, Bletchley, Milton Keynes. 0908 641272

Chrthse Energy	63.6	.....	—
Magna Bld. Soc.	162.3	.....	—
Magna Managed	169.4	.....	—

Chieftain Assurance Funds
11 New Street, EC2M 4TP. 01-283 3933

Managed Growth	180.30	190.32	+1.49	—
Managed Income	79.62	83.83	+0.08	—
International (z)	[illegible]	[illegible]	+3.50	—
High Income	[illegible]	[illegible]	−0.16	—
Income & Growth	79.76	83.96	−0.52	—
Basic Resources	176.15	185.42	+2.59	—
American (z)	127.42	134.13	+0.44	—
Far Eastern (z)	135.64	142.78	+2.36	—
Cash	113.37	119.34	.....	—

Imperial Life Ass. Co. of Canada
Imperial House, Guildford. 71255

Growth Fund Jan. 16.	100.0	108.7	−1.1	—
Pen. Man. Fd. Jan. 16.	92.3	100.4	−1.1	—
Unit Linked Portfolio				
Managed Fund	115.2	121.3	−1.4	—
Fixed Int. Fd.	115.9	119.9	−1.3	—
Secure Cap. Fd.	116.7	122.8	+0.1	—
Equity Fund	126.4	133.0	−1.9	—
Property Fund	96.7	102.0	+0.2	—

Irish Life Assurance Co. Ltd.
Basildon House, 7/11 Moorgate, EC2. 01-606 6401

Blue Chip Jan. 16	80.4	84.6	−1.3	—
Blue Chip Ser. II	107.8	113.5	−1.8	—
Managed Fund	257.5	271.0	−5.3	—
Mangd. Fd. Ser. II	103.5	108.9	−2.0	—
Exempt. Man. Fd.	141.6	149.1	.....	—
Prop. Md. Jan. 6	227.2	239.1	.....	—
Prop. Md. Gt. Jan. 6	270.9	285.1	.....	—

Property Growth Assur. Co. Ltd.♥
Leon House, Croydon CR9 1LU. 01-680 0606

Property Fund	239.8	.....	—
Property Fund (A)	235.6	.....	—
Agricultural Fund	917.0	.....	—
Agric. Fund (A)	910.8	.....	—
Abbey Nat. Fund	191.0	.....	—
Abbey Nat. Fd. (A)	190.5	.....	—
Investment Fund	91.4	.....	—
Investment Fund (A)	90.3	.....	—
Equity Fund	251.7	+1.6	—
Equity Fund (A)	248.6	+1.6	—
Money Fund	171.2	+0.3	—
Money Fund (A)	169.2	+0.3	—
Actuarial Fund	146.1	.....	—
Gilt-edged Fund	146.6	+0.2	—
Gilt-Edged Fd. (A)	146.6	+0.2	—
♦Retire Annuity	268.9	.....	—
♦Immed. Ann'ty	172.0	.....	—
International Fd.	137.7	.....	—

Prop. Growth Pensions & Annuities Ltd.

All Wther Ac. Uts.	168.1	177.0	.....	—
♥Inv. Fd. Uts.		205.3	.....	—
Pension Fd. Uts.		178.7	.....	—
Conv. Pens. Fd.		199.2	.....	—
Cnv. Pns. Cap. Ut.		164.3	.....	—
Man. Pens. Fd.		196.7	.....	—
Man. Pens. Cap. Ut.		167.7	.....	—
Prop. Pens. Fd.		200.3	.....	—
Prop.Pens.Cap.Uts.		167.3	.....	—
Bldg. Soc. Pen. Ut.		178.3	.....	—
Bldg. Soc. Cap. Ut.		150.7	.....	—
Gilts Pens. Fd.		114.5	−1.0	—
Gilts Pens. Fd. Cap.		110.4	−1.0	—
Equity Pens. Fd.		131.6	+1.0	—
Equity Pens. Fd. Cap.		127.1	+1.0	—

Providence Capitol Life Assc. Co. Ltd.
30 Uxbridge Road, W12 8PG. 01-749 9111

Sel. Mkt. Fd. Std.	155.1	163.7	.....	—
Pension Equity	165.5	170.6	.....	—
Pension Fxd. Int.	150.9	155.5	.....	—
Deposit Fd. Acc.	58.9	62.1	.....	—
Ltd. Pens Dep. Fd. Acc.	48.7	51.3	.....	—
Equity Fd. Acc.	59.4	62.6	.....	—

Tyndall Assurance/Pensions(a)(b)(c)
18, Canynge Road, Bristol. 0272 32241

3-Way	154.2	154.2	.....	—
Do. Pens.	196.0	196.0	.....	—
Equity		191.4	.....	—
Bond		185.9	.....	—
Property		154.0	.....	—
Overseas Inv.		103.2	.....	—
UK Inv		167.7	.....	—
Deposit		156.7	.....	—
Mn. Pen. 3-W	228.2	228.2	.....	—
Equity Pen.	347.0	347.0	.....	—
Bond Pen.	214.2	214.2	.....	—
Prop. Pen.	134.6	134.6	.....	—
Dep. Pen.	179.2	179.2	.....	—

Vanbrugh Life Assurance♥
41-43 Maddox St., Ldn. W1R 9LA. 01-499 4923

Managed Fd.	187.5	197.4	+0.3	—
Equity Fd.	308.1	324.4	+1.4	—
Intnl. Fd.	120.2	126.6	+6.4	—
Fixed Int. Fd.	183.4	193.1	−0.3	—
Prop. Fd.	204.5	215.3	+0.1	—
Cash Fd.	146.3	154.1	+0.1	—

Vanbrugh Pensions Limited
41-43, Maddox St., Ldn., W1R 9LA 01-499 4923

Managed	135.8	143.0	−0.7	—
Equity	153.1	161.2	−0.9	—
Fixed Interest	124.5	131.1	−1.0	—
Property	137.8	145.1	+0.1	—
Guaranteed		12.67	.....	—

Welfare Insurance Co. Ltd.♥
Winslade Park, Exeter. 0392-52155

Moneymaker Fd.	118.4	−1.4	—

For other funds, please refer to The London & Manchester Group.

Windsor Life Assur. Co. Ltd.
Royal Albert Hse., Sheet St., Windsor 68144

Investor Units	96.0	101.0	.....	—
Accum. Pen. Units	143.6	151.0	.....	—

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Continued on previous page

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		Stock	Price £	+ or –	Yield Int.	Yield Red.
1A	10	Aust. 5½pc '81-82	92¾		6.03	13.61
1J	1D	Do. 6pc 1981-83	83¾		7.23	13.25
1Ja	1J	N.Z. 7¼pc 1988-92	63¾		11.42	13.63
15J	15D	Do. 7½pc '83-86	78		9.59	13.50
1M	1N	Sth. Africa 9½pc '79-81	97¼		9.56	15.80
1A	10	S. Rhod. 2½pc Non-Ass.	124		—	—
—		Do. 3½pc 80-85 Assd	49	—	7.43	22.40
—		Do. 4½pc 87-92 Assd	29xd		15.51	21.69
—		Zimbabwe Ann (£100pa)	380	—	—	22.87

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INTERNATIONAL AND BRITISH OFFICES

EDITORIAL OFFICES

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NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 163(2)(a); not listed on any Stock Exchange and not subject to any listing requirements.
- ‡‡ Dealt in under Rule 163(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividends or forecasts.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ♥ Excluding a final dividend declaration.
- ** Regional price.
- ‖ No par value.

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital: cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1981-82. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1980-81. K Figures based on prospectus or other official estimates for 1979-80. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1981. P Figures based on prospectus or other official estimates for 1980-81. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

			IRISH		
Albany Inv. 20p	39	......	Conv. 9% '80/82	£93¾	......
Bertam	22½	+½	Nat. 9¾% 84/89	£74¾	−⅛
Bdg'wtr. Est. 50p	530	......	Fin. 13% 97/02	£84¾	......
Craig & Rose £1	£11¼	......	Alliance Gas	45	......
Fife Forge	39	......	Arnott	222	......
Finlay Pkg. 5p	20	......	Carroll (P.J.)	80	......
Graig Ship. £1	£19	......	Concrete Prods.	80d	......
Higsons Brew	65	......	Heiton (Hldgs.)	32	......
Holt (Jos) 25p	335	......	Ins. Corp.	320	......
I.O.M. Stm. £1	165	......	Irish Ropes	35	......
Pearce (C. H.)	650	+15	Jacob	34	......
Peel Mills	60	......	T.M.G.	26	......
Sheff. Refrshmt	101	......	Unidare	82	......
Sindall (Wm.)	130	......			

OPTIONS

3-month Call Rates

Industrials		I.C.I.	28	Utd. Drapery	6½
A. Brew	7	"Imps"	7	Vickers	14
BOC Intl.	9	I.C.L.	9	Woolworths	5
B.S.R.	4½	Inveresk	3		
Babcock	11	Ladbroke	24	**Property**	
Barclays Bank	40	Legal & Gen.	20	Brit. Land	8
Beecham	15	Lex Service	9	Cap. Counties	11
Blue Circle	30	Lloyds Bank	28	Land Secs.	35
Boots	20	"Lofs"	4	MEPC	20
Bowaters	20	London Brick	6	Peachey	8
B.A.T.	25	Lucas Inds.	20	Samuel Props.	15
Brown (J.)	6½	"Mams"	20	Town & City	2¼
Burton	10	Mrks. & Spncr	9		
Cadburys	6	Midland Bank	32	**Oils**	
Courtaulds	6	N.E.I.	7	Brit. Petroleum	36
Debenhams	8	Nat. West. Bank	32	Burmah Oil	19
Distillers	17	P & O Dfd.	12	Charterhall	11
Dunlop	7½	Plessey	25	KCA	22
Eagle Star	22	Racal Elect.	32	Premier	10
F.N.F.C.	3½	R.H.M.	4	Shell	40
Gen. Accident	30	Rank Org.	16	Tricentrol	34
Gen. Electric	50	Reed Intnl.	18	Ultramar	48
Glaxo	22	Sears	4½		
Grand Met.	16	Tesco	5½	**Mines**	
G.U.S. 'A'	48	Thorn	28	Charter Cons.	20
Guardian	32	Trust Houses	18	Cons. Gold	45
G.K.N.	16	Tube Invest.	15	Lonrho	10
Hawker Sidd	20	Unilever	50	Rio T. Zinc	45
House of Fraser	15	U.D.T.	4½		

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FINANCIAL TIMES
Monday January 19 1981

£51m visible surplus with EEC

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

BRITAIN HAD a visible trade surplus with the rest of the EEC in 1980 for the first time in 10 years. This followed a deficit of £3bn in 1979.

A detailed analysis of the 1980 trade figures shows that the UK improved its visible balance with most areas, with the significant exception of North America.

The sharp turnaround in trading with the rest of the EEC to a surplus of £51m last year may, however, be only a temporary response to the recession.

The downturn on the Continent started later and has been much less steep than in the UK. Consequently, British exports to the EEC were relatively strong last year.

In contrast, the sharp fall in UK output and stock levels resulted in a decline both in the value and volume of UK imports from the rest of the EEC. This trend could be reversed once destocking ends. The overall trade balance is likely to be adversely affected by the sharp rise in the pound against the main Continental currencies.

PATTERNS OF UK TRADE

	Visible balance 1980	Visible balance 1979	Change in volume 1980 over 1979 Exports	Change in volume 1980 over 1979 Imports
	£m	£m	%	%
Manufactured goods	+3,888	+1,654	+1.7	−1.3
Chemicals	+2,139	+1,510	−4.5	−14.5
Passenger cars	−1,236	−1,757	−6.8	−19.0
Other consumer goods	−1,386	−1,393	−1.5	−1.7
Capital goods	+2,311	+1,778	+4.2	+2.5
Fuels	−456	−1,460	+5.8	−15.4
EEC	+51	−3,011	—	—
North America	−2,024	−1,386	—	—
OPEC	+642	+418	—	—

Source: Department of Trade

A more favourable point is that the UK is increasing its exports of North Sea oil to the EEC, notably to West Germany.

Moreover, the latest figures are only for visible trade. The UK has usually had a large surplus on its private sector invisible trade with the EEC (such as services and profits and dividends). But this has been increasingly offset by UK contributions to the EEC budget.

The other main feature of the geographical breakdown is that the deficit on trade with North America increased by £638m. This may have reflected the earlier start of the U.S. recession and the impact of the fall in the dollar.

Britain's trade balance with the oil-producing countries in OPEC only improved by £224m. Although exports rose by 31 per cent in value from the low level of 1979, imports from OPEC were boosted by rises in the oil price.

An analysis by commodity groups shows that the surplus in trade in manufactured goods rose by £2.2bn. While UK export markets held up better than expected, this improvement again seems to reflect the impact of the recession and destocking. There was, for example, an increase of about £1.75bn in the surplus on manufactured items in the last recession between 1974 and 1975.

The growth of North Sea oil production was reflected in the fall of £1bn in the deficit on trade in fuels.

Recessionary influences can be clearly seen in the falling volume of exports and imports of both chemicals and passenger motor cars. But there was no change in the balance of trade on other consumer goods.

The capital goods performance has been good with a marked rise in export volume. But there are long delivery times in this area and sales last year probably reflected orders from earlier years.

Plan to lend on high risk ventures

By John Elliott, Industrial Editor

A NEW subsidiary of the National Enterprise Board is expected to be set up next month to provide loans of up to £50,000 to small businesses for high risk ventures.

About £5m is likely to be earmarked for lending in the next few years by the Board which will operate closely with financial institutions and with the Department of Industry's small firms' counselling service. The loans will normally be for about five to seven years.

The scheme will form part of a major programme being planned by the Government to try to help small companies start up and expand at a time when interest rates are beginning to fall.

The measures include a Government-backed bank loan guarantee scheme which the Treasury and the Department of Industry are expected to start discussing in detail with the clearing banks during the next few days.

Various tax concessions are also planned for announcement in the Budget. They will include a major initiative aimed at providing tax exemption, linked to income tax, for people starting up new companies.

Ministers have become increasingly concerned about the plight of small companies during the recession. They are specially worried because the Government is relying on new and expanding small companies to provide new jobs. Availability of loans both for businessmen who cannot provide banks with sufficient security, and for high-risk ventures, have been identified as two major areas where help is needed.

The loan guarantee scheme, which is likely to be approved by Ministers soon, is being designed to provide Government-backed guarantees for about 80 per cent or more of a loan where security is lacking.

The NEB project, which is expected to be announced early next month, may be linked with the guarantee scheme. But it is basically being planned with full ministerial backing to cater for higher risk projects involving unsecured loans.

The NEB is anxious not to duplicate work done by other agencies and institutions. It is likely to be looking for small businessmen who cannot raise loans of perhaps £20,000 or £30,000 (with a ceiling of £50,000) from other sources, and who may be prepared to allow the NEB to take an equity stake in their venture later.

It is hoped that these equity stakes would generate sufficient return for the NEB to pay for the fairly substantial number of failures that are likely to be involved.

THE LEX COLUMN

A breathing space for Massey

Massey-Ferguson lives. The deal which was finally signed between the ailing Canadian multinational and its main bankers in London on Friday was not the sort of temporary, finger-in-the-dyke operation that Chrysler spent last week trying to cobble together in the U.S. Unless the market for agricultural equipment gets a lot worse, Massey should be able to make ends meet at least for the next couple of years.

There are probably two main reasons for Massey's survival. Much more than Chrysler, it does appear to have a reasonably viable business trying to struggle out from under the mountain of debt. Moreover, the consequences of its failure would have been financial and industrial chaos. Few companies are so genuinely multi-national, with an enormous volume of cross-border trade between the various subsidiaries and a comparatively small manufacturing base in its country of origin. If the bankers had pulled out, the business would have seized up almost immediately. That in turn would have had grave implications for a number of important suppliers, several of which are under enough pressure already.

Massey has major businesses in the UK, and it is noteworthy that although the British Government has had little direct role in the negotiations, its agents have been in the front line. The Bank of England has helped to bring straggling lenders into line, and the Export Credits Guarantee Department has played an important role in the recapitalisation of the group, standing behind an issue of Can.$90m convertible preferred shares in Canada. That must be about as close as one can get to a policy of intervention while keeping Government ministers out of the headlines.

The banks have had to be generous to Massey, to get it on its feet. Its estimated loss on the three months to January (the first quarter of the current financial year) is around $120m. Its net worth last October was down to around $420m, while its borrowings were in excess of $1¼bn. All these figures are in Canadian dollars.

Under the scheme, the Canadian Government will guarantee an issue of $200m preferred shares, and there will be another $140m of new cash available immediately in the form of convertible preferred shares which will be taken up or guaranteed by the Canadian Imperial Bank of Commerce and UK lenders. CIBC will also convert $100m of its loans into equity.

That will still leave a lop-sided balance sheet. But the key feature of the scheme is that the lenders have agreed to forgive all interest payments with effect from last December 1, up to a total of $280m. Instead they will receive some 37m ordinary shares, which will give them an eventual holding of around 25 per cent in the equity after everything is converted. The holding of the UK banks could be a bit under 10 per cent.

For accounting purposes, Massey will still have to show the interest charges as though they had been paid. But even at its worst moments the group has usually been able to achieve a small operating surplus before interest costs, and a great millstone has now been removed from its cash flow during the next year or two. In 1981-82 it will probably need very roughly $200m for investment in fixed assets and working capital, and this figure could be comfortably exceeded by the pre-interest surplus and the depreciation provision. The cost of the preferred stock could be just over 8 per cent.

Some bankers evidently hope that by the end of the year Massey will have recovered sufficiently to start showing a profit even after nominal interest costs. In that event, it would also be able to start making use of its enormous allowances for past tax losses.

A further very important undertaking by the lenders is that they will not seize on this opportunity to reduce their commitments to Massey. On the contrary, they have promised to maintain their lines of credit at the present rate for the next three years, and there are agreed limits on the scale of any cut-back in the following three years.

Not surprisingly, the existing ordinary shareholders of Massey will be swamped by this transaction. The current total of 18½m shares outstanding could rise to around 135m shares in two or three years' time, after allowing for conversions, and for the exercise of warrants to subscribe for 50m shares which are to be attached to the preferred shares guaranteed by the Canadian Government.

But here again the banks appear to have been generous. The conversion price for their preferred is $7.50 a share—a figure which was apparently first mentioned in negotiations towards the end of last year. The market price was around that level in October, but has since dropped to as low as $4.20 before rallying to the present price of just over $5.

The full implications of the rescue package for the share price cannot be gauged until the exercise price of the warrants is announced. But compared with what might have happened, ordinary shareholders have done very well out of this deal.

Banks and SSAP 16

The London consortium banks has emerged as the second group of banks to try to seek exemption from the provisions of the UK current cost accounting standard SSAP 16. They join the accepting houses, which have for many months been locked in discussions with the Accounting Standards Committee — discussions in which the Governor of the Bank of England has now become involved.

It is argued by the Association of Consortium Banks that it would be "seriously misleading and inappropriate" for consortium banks to disclose current cost information. Apparently the Association fears that the confidence of depositors could be seriously affected. Indeed, it is concerned that compliance with SSAP 16 will affect the ability of its member banks to go on trading in London on a competitive basis.

This column discussed two weeks ago the possibility—indeed, probability—that most large international banks are making losses in real terms, after adjusting their accounts for inflation. Until now, banks have not had to acknowledge this in published statements. But the London consortium banks, which mostly have December year-ends, now face the need to publish current cost supplementary statements in accordance with SSAP 16 within the next few months.

The ACB is concerned that uncertainty and misunderstanding will result. Either its members will comply, and disclose a profit under the historical cost convention but a loss under CCA. Or they will ignore SSAP 16, in which case—some of them have been warned — their accounts will suffer a technical qualification.

It is, of course, remarkably late in the day for the ACB to be seeking exemption. The Accounting Standards Committee should tell the consortium banks that putting over unpalatable information to depositors (not to mention shareholders) is something that they must face up to.

Negotiations for sale of Times titles start soon

By Alan Pike

CRUCIAL AND difficult negotiations which will almost certainly determine whether Times Newspapers is sold as a going concern to a single bidder are about to begin.

Thomson British Holdings is expected to announce, possibly early this week, that it has chosen a front-runner from a short list of bidders for the Times titles. The successful bidder will be allowed two or three weeks in which to reach agreement with the print unions *on manning levels and new* technology.

Union leaders and many Times Newspapers staff believe that Mr. Rupert Murdoch's News International, publishers of The Sun and the News of the World, will emerge as the chosen bidder but this has not been confirmed.

There are at least two other *firm bidders on the short list*, which includes Associated Newspapers, publishers of the Daily Mail.

If the chosen bidder fails in the two or three weeks available to negotiate a basis for taking over Times Newspapers, including reaching agreement with the unions, Thomson would turn to the other groups which *have shown interest.*

But it is probable that at this stage the five Times titles, The Times, the Sunday Times and the three Times supplements, would be sold separately.

Mr. Owen O'Brien, general secretary of the National Society of Operative Printers, Graphical and Media Personnel, *the union with most members* at Times Newspapers, said yesterday that he believed Mr. Murdoch was the frontrunner among the bidders.

Although Mr. Murdoch proved a tough negotiator when he took over The Sun he was "at least a newspaperman." This would give a News International bid certain advantages over *those from more peripheral* organisations, said Mr. O'Brien.

Provided Mr. Murdoch was prepared to keep all the titles going and give acceptable undertakings on editorial freedom, Mr. O'Brien believed that negotiations would be possible.

The Thomson organisation will cease publishing the Times titles in the middle of March

Sunday Times journalists declared that they believed a proposed consortium led by Mr. Harold Evans, their editor, is the only bid which appears to offer adequate editorial safeguards.

Journalists of The Times (JOTT), a consortium of Times editorial staff, has not opposed a possible sale to another proprietor but insists that he must guarantee the editorial integrity of the newspapers.

Miners' leaders fear NCB move to close 'uneconomic' pits

BY CHRISTIAN TYLER, LABOUR EDITOR

MINERS' UNION leaders suspect that the National Coal Board is about to announce a rapid rundown of "uneconomic" pits to survive the short-term pressure of falling demand for coal, cash-flow crisis and Government-imposed financial stringency.

Their suspicions will inject extra urgency into an unusual summit meeting of coal, steel and rail unions on Friday. This will decide how to mount a campaign for much greater Government protection and subsidy for the three State industries.

Industrial action has not been ruled out as a tactic of last resort.

The apparent success of the British Steel Corporation in winning employee support for its survival plan—the loss of 22,000 jobs, a minor reduction in capacity through plant closures, and a six-month wage freeze is likely to be severely qualified today.

The result of a ballot by the biggest steel union among its 60,000 BSC members is predicted to show a convincing rejection of the Corporation's plan, though separate voting on the wage freeze may be close.

The majority of Iron and Steel Trades Confederation members against the plan could be as high as two to one.

On Friday BSC announced that its own single-question ballot of all employees showed 78 per cent of those voting in favour. However, 35 per cent of the 125,000 employees abstained.

The troubles of steel and the recent threats by railway unions to strike unless the Government steps up financial support may be overshadowed by the political repercussions of the NCB plans.

Sir Derek Ezra, the NCB chairman, in private meetings with miners' leaders, has outlined the poor state of the industry for the short term, but has refused to disclose his *plans before a meeting on* February 10.

Militants like Mr. Arthur Scargill, Yorkshire Area president of the National Union of Mineworkers, have claimed for some time that 40 or 50 pits are due for closure and have warned of industrial action if any is shut on economic grounds.

Last night NUM moderates were also speculating that those pits—many in the Left-wing areas of South Wales and Scotland—might go.

The threat is certain to be raised on Friday, when the national executives of the NUM, the ISTC and the National Union of Railwaymen discuss their "triple alliance" strategy.

What one union leader described yesterday as a "coal mountain" of 6m tonnes is building up in pityards because of the fall in demand from steelworks and the NCB's own smokeless fuels subsidiary.

Production rose last year by 1.4m tonnes, there was a big productivity rise, and because attendance was also up, the Board had to pay for 622,000 more manshifts than it budgeted for. The NCB has already alerted suppliers to its cash-flow problems.

Commenting on the "triple alliance" programme, Mr. Bill Sirs, general secretary of the ISTC, said yesterday that it would be a strong pressure group for Government money and investment.

The probable rejection of the BSC plan by ISTC members means that the union will insist on job losses and BSC demands for abolition of all union demarcation lines being fully negotiated at local level.

Mr. Sirs admitted that the union could probably not stop the job losses. BSC had already in some cases threatened to cancel redundancy payments unless its deadlines were met.

Mr. Sirs said he expected some further negotiation on pay when the ISTC met Corporation officials tomorrow.

○ A work-sharing plan put forward by union leaders at Velindre tinplate plant, near Swansea, has ben turned down by the management.

Begin calls July general election after Government defeat

BY DAVID LENNON IN TEL AVIV

THE ISRAELI CABINET fixed the General Election yesterday for July 7.

It will table a Bill in the Knesset this week for that relatively early date. The latest possible date would be in November.

The Government lost its Parliamentary majority last week when Mr. Yigal Hurvitz, the Finance Minister, resigned over pay increases to teachers, and led his Rafi Party, with three Knesset members, out of the coalition.

Mr. Menachem Begin, the Prime Minister, told the Cabinet that the election must be advanced, despite frantic attempts by some Ministers last week to find support among Independent Knesset members to keep the Government in power till November.

The Cabinet indicated its reluctance to leave office by choosing a date almost six months hence. The decision to hang on as long as possible stems from predictions by the opinion polls that the ruling Likud bloc will lose heavily to the Labour Party Opposition.

Labour and other small opposition parties said yesterday that they would not accept such a long run-up to the election, and would seek it for May.

The Coalition's Bill is expected to be tabled quickly, probably tomorrow. It will join five other dissolution Bills put forward by various opposition and one junior coalition party.

Given the absence of a clear Parliamentary majority for the coalition, this could mean considerable haggling in the Knesset before a final date is agreed upon.

Cabinet Ministers said that they hoped to use the coming half-year to improve the economy, curb inflation, so winning back much of the support lost among the public. Other Ministers want to use this period to reinforce and expand the Jewish settlements on the occupied West Bank.

Despite assumptions that this would mark the end of the political career of Mr. Begin, he surprised reporters yesterday by announcing that he would be willing to lead his party in the next election if this was the will of the party.

Notwithstanding the Likud bloc's low rating in opinion polls, he thought that his party had a fair chance of winning.

The coalition gradually lost Parliamentary strength through a series of defections by senior Ministers, including those of Foreign Affairs, Defence, Justice, and most recently and fatally Finance.

Yesterday the Government failed to agree about a replacement for the Finance Minister. The Herut and Liberal Parties, which dominate the Likud bloc both claimed the portfolio.

This sort of bickering, and Mr. Begin's inability to impose his will on his warring Cabinet, has typified most of his time in office since June 1977. It has contributed, with massive inflation and growing unemployment, to the voters' loss of faith in the Government.

Editorial Comment, Page 12

Weather

UK TODAY

MOSTLY DRY with bright sunny intervals. Cloudy at first in some eastern districts with rain or snow in places. The West will be cloudier with rain in Northern Ireland later. Temperatures near normal.

Outlook: Becoming milder and cloudy with occasional rain but brighter in East at first.

WORLDWIDE

	Y'day midday	°C	°F		Y'day midday	°C	°F
Ajaccio	F	12	54	L. Pima.	C	17	63
Amsdm.	S	3	37	Lisbon	S	13	55
Athens	S	12	54	Locarno	S	4	39
Bahrain	F	22	72	London	C	4	39
Barclna.	S	13	55	L. Ang.†	S	13	55
Beirut	F	14	51	Luxmbg.	C	3	37
Belfast	R	5	41	Luxor	S	17	63
Bolord.	C	1	34	Madrid	F	7	45
Berlin	Sn	−2	28	Majorca	S	14	57
Biarritz	C	10	50	Malaga	S	15	59
Bmghm.	C	3	37	Malta	S	14	57
Blackpl	R	4	39	M'chstr	C	3	37
Bordx.	C	9	48	Melbne.	T	35	95
Boulgn.	C	4	39	Milan	S	4	39
Bristol	R	5	41	Mntrl.†	Sn	−15	5
Brussels	C	3	37	Moscow	C	−4	25
Budpst.	Sl	2	36	Munich	Sl	2	36
Cairo	S	16	61	Naples	C	7	45
Cardiff	R	5	41	Nwcstl.	C	3	37
Cas'b'ca	S	15	59	N York†	S	−11	12
Cape T.	F	27	81	Nice	S	9	48
Chicg.†	Sn	−3	27	Nicosia	S	16	61
Cologne	Sn	1	34	Oporto	F	13	55
Cophgn.	Sn	−3	27	Oslo	Sn	−9	16
Corfu	S	14	57	Perth	S	34	93
Denver†	S	−4	25	Prague	F	1	34
Dublin	C	8	46	Reykjvk.	Sn	−3	27
Dbrvnk.	S	14	57	Rhodes	S	14	57
Ednbgh.	C	8	46	Rome	S	7	45
Faro	S	15	59	Salzbrg.	Sn	−1	30
Florence	F	7	45	S'cisco†	S	9	48
Frankft.	C	2	36	Stckhm.	Sn	−8	21
Funchal	R	16	61	Strasbg.	C	4	39
Geneva	C	4	39	Tangier	S	15	59
Gibrltr.	S	15	59	Tel Aviv	S	15	59
Glasgow	R	3	37	Tenerife	F	19	66
G'rnsey	C	7	45	Tokyo	C	7	45
Helsinki	Sn	−8	18	T'ronto†	Sn	−8	18
Innsbrk	C	1	34	Tunis	R	14	57
Invrnss.	C	2	36	Valencia	S	16	61
I.o.Man	C	6	43	Venice	S	4	39
Istanbul	C	2	36	Vienna	C	−1	30
Jersey	C	6	43	Warsaw	C	−1	30
Jo'burg	F	25	77	Zurich	Sl	2	36

C—Cloudy. F—Fair. Fg—Fog. H—Hail. R—Rain. S—Sunny. Sl—Sleet. Sn—Snow. T—Thunder. †Noon GMT temperatures.

Continued from Page 1

Banks drop law suits

would be up to Algeria to ensure that Iran met all the conditions for full payment of its $8bn assets. Algeria would sign a written contract to this effect which the U.S. expected it would honour. The Bank of England would just act as "banker" or holder of the money, they said.

Several hundred U.S. individuals and companies have filed compensation suits against Iran for the expropriation of their property there but have been worried that the Carter Administration might ditch their interests in the last minute rush for a settlement.

Certainly, the U.S. banks have been much better placed to guard their interests since *they have actually held most of* Iran's money in their vaults and in fact have used large proportions of this to pay off the credits Iran had borrowed from them.

This "setting off" procedure was permitted under the November 1979 asset freeze by President Carter in the event that Iran defaulted on loan repayments. Since the freeze order effectively prevented Iran from making payments on any of its American loans, the default was virtually automatic.

However, many U.S. banks backed up their "set offs" with law suits against Iran—a sort of double insurance. The banks agreed over the weekend to drop these suits.

Continued from Page 1

Owen hints at plans

rather than announce their early resignations from the Labour Party, they will make clear a strategy of gradual disengagement so that MPs can attempt to win over key party workers and supporters in their constituencies before making the final break.

So after months of doubt, *hesitations and policy defeats* by the Left, a decision in principle to leave the party appears to have been taken by the leading dissidents should the Wembley conference go as anticipated.

The issue seen as a watershed is the method of electing a leader. Following the conference decision to widen the franchise beyond the Parliamentary Labour Party, the Right has advocated a secret ballot of all party members. But this has virtually no chance of success because of opposition from the trade unions as well as the National Executive Committee and Left-wing activists.

The assumption is that after a day of immense procedural complexity, *a formula will be* reached on the composition of an electoral college. Mr. Michael Foot, the party leader, favours 50 per cent of the votes for Labour MPs, and 25 per cent each for the trade unions and constituency parties. But the NEC proposal for the votes to be split equally three ways probably has a greater chance of success.

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